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CITY AND COUNTY FINANCES IN THE POST-PROPOSITION 13 ERA:

AN ANALYSIS OF CHANGES IN THE FISCAL CONDITION OF CALIFORNIA CITIES AND COUNTIES DURING THE 1977-78 TO 1979-80 FISCAL YEARS

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PREFACE

We would like to extend our thanks for the cooperation and assistance given to us in the preparation of this report by the 130 city and county officials who participated in our field interviews. Their courtesy and candor made it possible for us to gain valuable insight into the fiscal problems of local government in a very short time.

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TABLE OF CONTENTS

VOLUME I

		Page
SUMMARY AND RECOMMENDATIONS		i
I.	INTRODUCTION	1
II.	CHANGES IN CITY FISCAL CONDITIONS 1977-78 to 1979-80	7
	A) City Revenue Trends	7
	B) City Expenditure Trends	18
	C) Trends in City Employment	31
	D) Trends in City Capital Spending	39
	E) Changes in the Levels of Selected Municipal Services	43
III.	CHANGES IN COUNTY FISCAL CONDITIONS 1977-78 to 1979-80	65
	A) County Revenue Trends	65
	B) County Expenditure Trends	75
	C) Trends in County Employment	87
	D) Trends in County Capital Spending	95
	E) Changes in the Levels of Selected County Services	100
IV.	THE LEGAL POWERS OF CITIES AND COUNTIES TO RAISE REVENUES AT THE LOCAL LEVEL AFTER PROPOSITION 13	111
V.	MAJOR ISSUES RAISED IN FIELD INTERVIEWS WITH COUNTY AND CITY STAFF	117
	A) Cities	117
	B) Counties	126
VI.	NEED-BASED FORMULAS FOR ALLOCATION OF STATE AID TO LOCAL GOVERNMENTS	133
	A) Background	133
	B) Measures of Need Among California Cities	138
	C) Measures of Need Among California Counties	155

TABLE OF CONTENTS - continued

VOLUME II

APPENDICES

I	The Legal Authority of California Cities and Counties to Raise Revenues After Proposition 13.
II	Recent Growth Patterns in th Compensation of Teachers and Other Local Government Employees.
III	Assembly Office of Research City Fiscal Condition Survey.
IV	Assembly Office of Research County Fiscal Condition Survey.
V	Supplementary Replies to Questions About City Service Levels in the AOR City Finance Survey.
VI	Supplementary Replies to Questions About County Service Levels in the AOR County Finance Survey.
VII	"Formula Approaches to Local Government Assistance." Appendix D in Allocating The One Percent Local Property Tax in California. Institute of Governmental Studies Report 79-2.
VIII	Selected Bibliography.
IX	City and County Staff Interviewed by AOR Staff and Questions Discussed in the Interviews.
X	List of the Cities That Provided Complete Survey Replies Analyzed in Preparing This Report.
XI	List of the Counties That Provided Complete Survey Replies Analyzed in Preparing This Report.

SUMMARY AND RECOMMENDATIONS

Introduction

This report is the result of the Assembly Office of Research's six-month long study of city and county finances in the first two fiscal years of the post-Proposition 13 era. The study reviews city and county finances and service levels for the 1977-78 to 1979-80 fiscal years. It is based on an extensive written fiscal survey and 36 field interviews with city and county staff.

City Fiscal Conditions

One thing made abundantly clear in the course of our study was the impossibility of making generalizations about the fiscal condition of California cities. While cities such as Oakland and Compton are suffering from what their own officials (and our survey data) indicated was a seriously weakened fiscal condition, other cities we surveyed such as Anaheim, Cerritos, Fairfield, and Sunnyvale have maintained a very healthy fiscal position, Proposition 13 notwithstanding. The other cities we reviewed displayed a fiscal condition that fell somewhere between these two extremes.

The following table summarizes a number of the key indicators of changes in city fiscal conditions over the 1977-78 to 1979-80 period.

Summary Data on Changes in City Finances 1977-78 to 1979-80 (Excluding San Francisco)

Revenue Trends	1977-78	1979-80	Change
Total City Revenues	$5.25 billion	$5.78 billion	10.1%
Total City Revenue Per Capita	$326	$342	4.9%
Total City Revenues Per Capita in Constant 1977-78 Dollars	$326	$299	-8.2%
Per Capita City Discretionary Revenues	$211	$232	9.8%
Per Capita City Discretionary Revenues in Constant 1977-78 Dollars	$211	$202	-4.3%

Expenditure Trends

City Expenditures Per Capita in Constant 1977-78 Dollars

City Function			
Police and Fire	$113	$114	+0.8%
Public Works	57	50	-12.3
Libraries	8	7	-12.5
Parks and Recreation	25	23	-8.0
Other Programs	41	35	-14.6
General Government	45	37	-17.8
Total (excludes capital outlays)	$289	$266	-7.8%

Employment Trends	Change 1977-78 to 1979-80
Total City Employment in AOR Sample Cities (non-enterprise fund activities)	-8.1%
Total City Employment in All California Cities (includes enterprise fund activities)	-2.1%

Revenue Trends

As the above table indicates, city revenues have not kept pace with the increase in city population and the effects of inflation during the study period. In inflation adjusted terms, total city revenues per capita fell by 8.2 percent during the 1977-78 to 1979-80 period. This decline is the result of Proposition 13's cut in property tax revenues and an 11.8 percent decline in federal grants to California cities. City discretionary revenues (locally controlled funds not subject to federal or state controls) showed a 4.3 percent decline when measured on an inflation adjusted basis. During this period inflation was 14.7 percent, based on the G.N.P. deflator for state and local government purchases.

The following table displays the growth of the major city revenue sources during the 1977-78 to 1979-80 period.

Growth in Selected City Revenues

Revenue Source	1977-78 to 1979-80
Property Tax	-32.2%
Sales Tax	30.3
Other Local Taxes	31.5
Federal and State Grants	-11.5
User Fees and Charges	38.5
Licenses and Permits	11.9
Fines	28.8
Total Revenues	10.1%

As the table indicates, the large declines in the property taxes and in federal and state grants to cities were offset by the substantial increases in other city revenue sources. Although there has been rapid growth in revenue from fees and charges (38.8 percent), these sources

still make up less than 10 percent of city revenues. The following table compares the role of seven major revenue sources in funding city budgets for 1977-78 and 1979-80.

Tax and Non-Tax Revenue Support of City Budgets 1977-78 and 1979-80

Tax Based Revenues	1977-78	1979-80
Property, Sales and Local Taxes	49.1%	45.4%
State Shared Taxes	7.2	8.0
Federal Revenue Sharing	3.8	3.7
Federal and State Grants	19.5	16.5
Subtotal	79.6%	73.6%
Non-Tax Revenues		
User Fees and Charges	7.8%	9.9%
Licenses, Permits, Fines	3.8	4.0
Other Revenues	8.8	12.5
Subtotal	20.4%	26.4%
Total	100.0%	100.0%

Expenditure Trends

As the summary table presented earlier indicates, city spending per capita on an inflation adjusted basis has declined for every major city function except police and fire services. Every city we contacted during this study indicated that local elected officials assigned the highest priority to the maintenance of police and fire services. This assertion was proven true in every area we examined (expenditures, employment, and service level data). The areas hardest hit by post-Proposition 13 budget problems were miscellaneous city services (-14.6 percent), (senior citizen programs, cultural activities, etc.),

and general city administrative costs (-17.8 percent). This last category is noteworthy because it represents the area where most of the "bureaucratic fat" is located. It appears that cities have trimmed a significant amount of the celebrated "fat."

Employment Trends

By every measure we examined, city employment appears to have declined during the study period. Bureau of the Census data, Employment Development Department (EDD) data, and our own survey data indicates that total city employment has fallen during the 1977-78 to 1979-80 period. Our survey data indicates that police and fire services were held relatively free from reductions in staffing while all other city functions experienced significant reductions in the number of employees. In our 94 city sample, cities reported a loss of 7,654 jobs (in non-enterprise activities). Approximately 75 percent of this loss represented the elimination of federally funded CETA jobs that cities could not replace with local funding. In our survey, the two city functions hardest hit by employment cutbacks were library (-14 percent) and park programs (-23 percent). Most cities avoided layoffs and made the needed reductions through attrition.

Capital Spending

City capital spending in our survey cities rose by 14.2 percent in current dollar terms over the study period. After adjusting for inflation in construction costs, city capital spending fell by 2.5 percent during this period. That city capital spending did not show the massive drop that some observers had expected after Proposition 13, may reflect the fact that capital expenditures made during the 1978-79 and 1979-80

fiscal years were the result of commitments made prior to Proposition 13. Officials we interviewed expressed the view that such spending will drop in future years due to cancellation of new projects funded from local taxes and the decline in federal aid to cities.

City Service Levels

In response to Proposition 13's major cut in city tax revenues, most cities were forced to trim local services. Generally speaking, fire and police services were spared from serious cutbacks. Virtually every community we visited indicated that the local city council put fire and police services at the top of their priority list. As a result of sparing this large sector of the city budget (40 percent in most cities) heavier cuts fell on the remaining areas. The areas most frequently affected were library operations, park and recreation programs, street maintenance programs, general city administrative offices, and a variety of city supplied social and community services.

Our survey indicates that cities have been able to maintain police and fire department response times during the study period in the face of rising demand for these services. Cities have not, however, been able to hold constant the average ratio of sworn police officers per 10,000 residents (dropping 7.2 percent from 16.7 to 15.5 officers per 10,000 residents) or firemen per 10,000 residents (dropping 6.4 percent from 17.1 to 16.0 firemen per 10,000 residents). This decline could indicate that cities may not be able to maintain the current level of fire and police service in future years.

City street maintenance programs suffered significant cutbacks during the study period. While the total street mileage in our survey

cities rose by 3.1 percent, the number of miles repaved or treated with a major maintenance treatment dropped 6.7 percent. Several large cities (Los Angeles, Oakland) now have stretched their maintenance cycles to the extent that their street systems are guaranteed to deteriorate. Though many city officials express dissatisfaction with the practice, street maintenance programs are viewed as an "invisible" place to cut spending in the short run.

Park and library programs showed the largest declines in the level of public service. In our sample, libraries have reduced public service hours by an average of 14.7 percent over the study period. They have also trimmed spending on books by 15.4 percent after adjustment has been made for the effects of inflation. Park and recreation program staff have been cut by an average 15.6 percent over this period and cuts in park maintenance workers have resulted in 19.7 percent increase in the acreage of park land maintained by each worker.

Large City Fiscal Problems

Two of the largest cities in our survey, Los Angeles and Oakland, have experienced particular difficulty in adjusting to the post-Proposition 13 world. Both cities had high property tax rates prior to the passage of the initiative and suffered large revenue losses as a result. While the state provided substantial fiscal assistance to these cities, they have nonetheless been forced to make substantial reductions in programs and staff that exceed the average reductions made by other cities. Both these cities are mature central cities with large low income populations that put a large demand on city services but do not generate large amounts of local revenues. These cities are also

saddled with large municipal pension systems (voter approved) that drain large amounts of current city revenues otherwise available for city services.

County Fiscal Conditions

As is the case with cities, the counties we surveyed displayed a range of fiscal strength from a fairly strong condition (Orange County) to serious distress (San Francisco, Santa Clara). Throughout our interviews county officials emphasized the degree to which they felt county fiscal health was dependent upon outside factors that they could not control. These factors included federal and state mandates in health, welfare, and criminal justice programs; general economic conditions which influence health and welfare caseloads; and workloads in the criminal justice system (courts, prosecutors, public defenders, jails, etc.). County staff pointed out that nearly 80 percent of county budgets were devoted to health, welfare, or criminal justice programs. The balance of county programs have borne the brunt of cutbacks necessitated by Proposition 13's cut in property taxes.

In response to Proposition 13's reduction in property taxes, counties' leading revenue source until that time, counties made reductions in a variety of local, non-mandated programs. The structure of the state's fiscal assistance program for counties (SB 154 of 1978 and AB 8 of 1979) ensured that the basic income maintenance and health programs (AFDC, SSI/SSP, Medi-Cal) were not affected by Proposition 13. Generally speaking, counties placed a high priority on maintaining police, court, and jail services, sparing them from major cuts. As a result, reductions were focused on library, park, capital outlay,

general government overhead, and discretionary local social service programs. A few counties were actually required to lay off employees (Alameda and Mendocino, for example). Most counties were able to make reductions in employment through elimination of job vacancies and normal attrition.

The following table summarizes a number of the key indicators of change in county fiscal condition over the 1977-78 to 1979-80 period.

Summary Data on Changes in County Finances 1977-78 to 1979-80 (Including San Francisco)

Revenue Trends* (58 counties)	1977-78	1979-80	Change
Adjusted Total Revenues	$8.68 billion	$9.51 billion	9.5%
Adjusted Total Revenues Per Capita	$389	$410	5.4%
Adjusted Total Revenues Per Capita in Constant 1977-78 Dollars	$389	$360	-7.4%
Per Capita County Discretionary Revenues	$153	$154	0.6%
Per Capita County Discretionary Revenues in Constant 1977-78 Dollars	$153	$134	-12.4%

Expenditure Trends
(18 Counties)

	County Expenditures Per Capita in Constant 1977-78 Dollars		
County Function	1977-78	1979-80	Change
General Government	$ 50	$ 40	-20.0%
Public Protection	84	88	+4.8
Roads	15	16	+4.8
Health and Sanitation	74	70	-5.9
Public Assistance	163	132	-18.9
Libraries and Education	5	4	-18.9
Recreation and Cultural	7	6	-20.3
Debt Service	2	2	-14.3
TOTAL	$401	$358	-10.7%

*All county revenue figures have been adjusted to reflect state assumption of county Medi-Cal and SSI/SSP costs.

NOTE: The expenditure data shown above is based on 18 survey counties, including most of the largest counties. Spending figures shown above are slightly larger than the averages for all 58 counties but the changes are representative of the trends in all counties.

Employment Trends	Change (1977-78 to 1979-80)
Total county employment in AOR sample counties (includes hospital enterprises)	-2.4%

Revenue Trends

As the above table indicates, county revenues have not kept pace with the increase in county population and the effects of inflation during the study period. In inflation adjusted terms, total county per capita revenues (after adjusting for state assumption of SSI/SSP and Medi-Cal costs) fell by 7.4 percent. This decline is wholly attributable to the effects of the property tax cuts imposed by Proposition 13. Because the state fiscal relief program for counties focused so heavily on state cost sharing of county health and welfare burdens, county discretionary revenues (use governed by local decisions) were even harder hit than were city discretionary revenues. Counties experienced a 12.4 percent decline in their per capita discretionary revenues during the 1977-78 to 1979-80 period. This represents a significant reduction in county officials' ability to respond to local needs.

The following tables display the growth of major county revenue sources during the 1977-78 to 1979-80 period and how the mix of county revenue sources changed during that period.

Growth in Selected County Revenues

Revenue Source	Change (1977-78 to 1979-80)
Property Tax	-39.2%
Sales and Other Local Taxes	34.8
Revenue from Other Governments	15.9
All User Charges (including hospital fees)	26.7

Tax and Non-Tax Revenue Support of County Budgets 1977-78 and 1979-80

	Percent of Total Revenues	
Tax Based Revenues	1977-78	1979-80
Property, Sales & Local Taxes	40.0%	26.4%
State Shared Revenues	5.3	6.0
Federal Revenue Sharing	3.4	3.4
Federal and State Grants	34.9	42.3
Subtotal	(83.6%)	(78.1%)
Non-Tax Revenues		
Hospital Charges	7.4%	8.8%
Other User Charges	4.2	5.4
Licenses, Fines, Permits	1.9	2.2
Other Revenues	2.9	5.5
Subtotal	(16.4%)	(21.9%)

As the table above indicates, locally controlled taxes now play a smaller role in financing county budgets. Counties are substantially more dependent upon federal and state funding for their operations, as 51.7 percent of their total revenue now comes from higher levels of government. It is interesting to note the small role that non-tax revenue sources play in county budgets. If we exclude hospital revenues, only slightly more than 13 percent of county revenues are raised from sources other than taxes or state and federal grants. Counties are

literally the fiscal "tail" wagged by the state and federal governments. With the loss of local control over the property tax rate and the allocation of property taxes among local governments, county governments have virtually no independent revenue raising authority, save for those new taxes approved by a 2/3 vote.

Expenditure Trends

As the summary table presented above indicates, the public protection function (courts, jails, and sheriff services) and the road function were the only areas of county government to receive a real increase in per capita expenditures during the study period. Every other area of county government experienced a decline in the real sources allocated to their use. However, the loss reported in the public assistance function should be approached cautiously since it reflects the reduction in county contributions for the SSI/SSP and Medi-Cal programs. These costs were assumed by the state as part of the post-Proposition 13 fiscal relief package. County officials we interviewed confirmed that they are struggling to maintain the level of public protection services in response to public demands, resulting in substantial cuts in other areas in order to cope with fiscal difficulties. As was the case with cities, the largest cuts have come in the areas of library (-18.9 percent), park (-20.3 percent), and general government (-20.0 percent) programs.

Employment Trends

Our 18 survey counties reported that total county employment (excluding non-hospital enterprise activity) declined by an average of 2.4 percent during the study period. Individual counties varied widely in their rate of employment growth with large declines reported by

Alameda (-6.9 percent), Contra Costa (-8.1 percent), San Joaquin (-8.3 percent), and San Mateo (-10.7 percent) counties and large increases reported by Placer (+9.7 percent) and Riverside (+7.9 percent) counties.

Among our survey counties only the public protection (+0.6 percent) and health and sanitation functions (+4.4 percent) reported increases in employment. The increase in the health area reflects increased caseloads in county hospital operations. All other areas of county government reported declines in total employment. The two county functions showing the largest decline in employment were libraries (-16.1 percent) and recreation programs (-4.8 percent). As was the case with cities, counties in our survey reported dramatic cuts in the CETA program. County jobs filled by CETA funded staff dropped by 48 percent over the 1977-78 to 1979-80 period. This represented a loss of 3,541 positions, nearly 80 percent of total job losses reported in our survey.

Capital Spending

Unlike cities, counties in our survey reported a substantial drop in spending for capital outlays even before adjustments are made for inflation. County capital spending dropped 27 percent between 1977-78 and 1979-80. If we adjust for inflation in construction costs the decline becomes an even more dramatic 37 percent decline. Many of the counties we interviewed expressed grave doubt about their ability in the future to provide adequate capital facilities in the areas of jails, hospitals, and courts. Given the data we gathered, their concerns seem well founded.

County Service Levels

Our survey results indicate that the level of police protection services has slipped somewhat over the study period. Sheriff's department response times have slowed about 10 percent in the ten counties supplying this information on our survey (response time increased by an average of 1 minute in our sample). While the total number of sworn and civilian law enforcement employees increased in our survey counties, the ratio of sworn officers per 10,000 residents fell from 7.1 to 6.9 (-2.8 percent) during the study period. If this trend continues counties will experience a further decline in service in this area. In general, while county law enforcement budgets have kept pace with inflation, they have not been able to increase staffing in proportion to growth in population and rising crime rates.

In general, county road programs reflected a decline similar to that shown by city programs. There was a 9.5 percent decline in the number of miles of road repaved or treated with a major maintenance procedure over the study period. Counties in our survey reported widely varying changes in this area. Sharp decreases were reported by Yolo (-25 percent), Riverside (-42 percent), and Los Angeles (-12 percent), while large increases were reported by Alameda (13 percent) and Orange (43 percent).

As was the case with cities, county library and park programs made sharp cutbacks in public services. Library public service hours declined by 19.4 percent, the number of branch libraries fell by 10 percent, and library book purchases (inflation adjusted) fell by 12 percent. County parks and recreation programs were forced to reduce

staff by nearly 48 percent and to increase the workload of maintenance staff by increasing the acreage of park land maintained by each worker 26 percent.

The Future of the State-County Fiscal System

County staff we interviewed expressed great dissatisfaction with nearly the entire fabric of state-county fiscal relationships.

Several county officials emphasized that the counties are administrative arms of the state with respect to most of their major functions in the health, welfare, and criminal justice areas. The state and the counties are, in effect, involved in a partnership which involves program and procedural mandates, as well as, complex funding arrangements. Most county staff we interviewed felt, however, that the county's relationship with the state was primarily adversarial, with each side seeking to improve its position at the expense of the other. Given the state's sovereign position, it usually wins its battles with the counties.

Many of the county officials we interviewed stressed the need for a wholesale re-examination of the division of responsibility and financial support for state and local government functions. They expressed an interest in moving toward a system of "block grant" funding for broad program areas in order to give counties more flexibility in dealing with local needs. Several administrators said that such a system would make best use of the main strength of local government -- the ability to respond to particular local needs in a timely and sympathetic manner.

The Legal Powers of Cities and Counties to Raise Local Revenue

Chapter IV of this report discusses the legal powers of cities and counties to raise local revenue and how these powers have been affected by Proposition 13 and subsequent legislation. Prior to Proposition 13, charter cities possessed broader revenue raising powers than did general law cities or counties of either type. Section 4 of Article XIII A of the Constitution (added by Proposition 13) has largely eliminated this historic advantage of charter cities. Section 4 allows all cities, counties, and special districts to levy "special taxes" provided they are authorized by a two-thirds vote of the electorate. The courts have interpreted this provision to apply to increases in existing taxes, as well as, to the imposition of new taxes. The courts have also found that these provisions apply to charter cities. As a result, all cities and counties find their power to levy taxes greatly restricted in the post-Proposition 13 era.

This portion of the report also discusses the authority of local agencies to levy benefit assessments or charge fees for services provided. Generally, we found that cities and counties have wide latitude to collect fees or levy benefit assessments for many services where the benefits flow to the person paying the assessment or fees. However, the legal limits of the power to charge such fees have not been established or tested with respect to fees or charges for general services (such as fire and police protection) that have traditionally been paid for with general taxes.

"Need" Based Formulas for Allocating State Aid

Chapter VI of this report discusses the issues involved in constructing a formula for allocating state aid to local governments on

the basis of "need." We were unable to discover any generally acceptable definition of "need" during this study. Generally, "need" is thought of much the same way as "beauty" - no one can describe its attributes in the abstract but everyone claims to know it when he or she sees it!

Local fiscal need involves two distinctly different areas - revenue raising ability and "demand" for expenditures. A local agency's "need" reflects not only its marginal ability to raise revenue but the level of demand for its services. The difficulty of arriving at an acceptable need-based allocation system is best illustrated by the case of the City of Oakland. Oakland has all the elements of urban fiscal distress, including declining population, a large low income population, a slow growing tax base, and an aging capital stock. The city was also hard hit by Proposition 13's tax reduction. As a result, the city has had to reduce police, recreation, library, street and other services. Oakland clearly has serious fiscal problems. However, Oakland also can be seen in another light. The city's per capita revenues and expenditures are significantly above the state average. While this, in part, reflects demands placed on the city by its population it also reflects <u>voluntary</u> local choices to provide high levels of service. Chief among these choices are an extremely expensive municipal pension system for police and fire employees and binding arbitration of labor disputes. These choices are in part responsible for the city's fiscal problems.

With this background in mind the question arises, just how much of Oakland's "need" should be met by taxpayers in other cities or counties? It appears impossible to isolate "need" from self-inflicted fiscal difficulties.

All this merely illustrates the difficulties involved in developing a comprehensive "need" formula for allocating general aid to local governments.

The problem of designing a responsive centrally controlled (state) fiscal system to replace the locally directed, decentralized system that existed before Proposition 13 will be a difficult one to solve. Constructing a system that maximizes local control and autonomy while preserving the tax limits of Proposition 13 is the major challenge facing policy makers shaping the state-local fiscal system.

Recommendations

Based upon our study and our extensive contacts with state and local officals concerned with the future of the state-local fiscal system we have a number of recommendations for future action.

State-Local Fiscal Relations

1) Appoint a Legislative Task Force to Review the Fiscal Relationships and Program Responsibilities of State and Local Government

In the last several years California has experienced what are truly revolutionary changes in the basic state and local government fiscal system. Proposition 13, the Gann Initiative, and the subsequent implementing statutes have radically altered the fiscal landscape of local government. The long held principle of local control of local taxing and spending decisions has been seriously weakened as we have sought to implement a new principle - strict tax and spending limits on local and state government.

Throughout our study, local officials we interviewed pointed to a major erosion of local fiscal "self-determination" brought on by Proposition 13's property tax rate limits, the initiative's 2/3 vote

requirement to raise or impose other taxes, and the greatly increased role of state government in allocating the remaining property tax and state "bail-out" aid to local governments. Local officials are concerned that the state is rapidly moving toward a far more centralized (state government controlled) system of allocating resources to meet local needs. This erosion of local control is a major unintended consequence of Proposition 13.

We concur with this opinion and recommend that the Legislature appoint a task force of legislators and local officials to examine how best to reconcile the long standing principle of local self rule with the newly accepted principle of strict tax and spending limits. This task force should study how best to divide existing revenue sources and service responsibilities among state and local agencies in order to provide the most responsive and decentralized government to all Californians.

We cannot emphasize too strongly that California has undergone a fiscal revolution in the last three years. It is now necessary to review our system of state and local government to adapt to the new fiscal environment while maintaining as much local self government as possible.

Local Capital Programs

Financing the construction and maintenance of local capital facilities (streets, hospitals, jails, sewer systems, etc.) is a growing fiscal problem for local governments. Proposed reductions in federal funding for local capital projects coupled with Proposition 13's reduction in tax revenue, elimination of general obligation bonds, and 2/3

vote requirement for tax increases will make it difficult for local agencies to provide adequate capital facilities in the future. The intense pressure on local operating budgets also means that maintenance spending will be less than adequate to protect our existing investment in local facilities. The following two recommendations address this problem.

2) The Legislature Should Define "Voter Approved Indebtedness" To Include Voter Approved Pension Obligations For Purposes Of Article XIII A of the Constitution

Article XIII A of the California Constitution (Proposition 13) limits property tax rates to one percent of full market value except for additional tax rates needed to retire indebtedness approved by the voters prior to July 1, 1978. A question has arisen, and is now being heard by the courts, as to whether this provision applies to voter approved employee pension plans in charter cities. This question is of great importance to several of California's largest and most fiscally troubled cities. San Francisco, Los Angeles, and Oakland all have two things in common--serious fiscal problems in the post-Proposition 13 era and very large annual pension contributions to their very generous public safety employee pension systems. These systems represent legally binding obligations of these cities to their past and current employees that were approved by local voters in past years. Recognizing these pension obligations as debts eligible for funding under the "voter approved indebtedness" exclusion of Article XIII A would relieve a great deal of the fiscal pressure on these cities. This in turn would greatly reduce the need for the state government to allocate large amounts of state assistance (or lessen the effect of future cutbacks in state aid)

to these cities at the expense of other local agencies and state taxpayers. It would return the fiscal burden to the local taxpayers who first authorized these pension obligations.

The courts have given great weight to legislative actions in interpreting the various terms contained in Article XIII A. Legislative action in this area could influence the courts, just as legislative action to define terms such as "change of ownership" and "new construction" have shaped decisions in those critical areas. The Legislature could specifically define what types of pension debt qualify for this exclusion and make it clear that the exclusion only applies to the cost of funding obligations incurred prior to July 1, 1978. Such action would be consistent with Proposition 13 and would at a stroke eliminate a major portion of the municipal "fiscal distress" which is causing pressure to build for the state to develop "need" formulas for allocating state aid to cities.

3) Increase the Motor Vehicle Fuel Tax and Share Part of the Additional Proceeds with Local Governments

Much has already been written about the inadequate street and road maintenance and construction programs of local governments. Throughout our field interviews, local officials pointed to the erosion of the constant dollar value of state gas tax revenues over the last decade. Since Proposition 13, cities and counties have found it difficult, if not impossible, to maintain general fund support for street and road programs. As a result, many cities and counties are literally consuming a portion of their capital plant each year because they are unable to perform routine street maintenance activities. This cannot continue much longer without seriously affecting the state's transportation network.

Many city and county officials argue that the gas tax is essentially a user fee that helps cover the cost of street and road systems. An increase in this fee is long overdue, since the fixed 7¢ per gallon charge has not been changed in well over a decade. Such an increase would place the burden of road and street costs on the users rather than the general taxpayer and seems to be in keeping with the general direction of public finance policy in the post-Proposition 13 era.

4) Overhaul the Existing Information System Concerning Local Government Fiscal Affairs

As was pointed out above, the state has assumed a far greater role in allocating resources to and among what were formerly autonomous local agencies. Unfortunately, the information system on which the Legislature bases its decisions in this area is totally inadequate. One thing that has become clear to us during our study is that the State Controller's annual reports on local agency finances, the only existing comprehensive information system on local government, are simply not accurate enough to support legislative decisions about local government. The existing system was developed during an era when it simply did not greatly matter what kind of data the state had about local agencies, because those agencies were basically responsible for their own fiscal affairs. Consequently, the State Controller never was allocated the staff and other resources needed to develop an effective and accurate system to monitor local finances. This is still the case today.

If the Legislature adopted some new division of state and local funding resources and service responsibilities (see #1 above) it might not be necessary to develop a better local fiscal monitoring system.

Until such changes are made, however, the Legislature will need better information on which to base decisions about allocating limited resources among cities, counties, schools, special districts, and state programs. An improved fiscal information system will require the investment of substantial amounts of money at both the state and the local level. The alternative to such an effort will be for local governments to be forced to play the annual budget game in Sacramento at a distinct disadvantage relative to the other competitors for state funds.

CHAPTER I

Introduction

Prior to the passage of Proposition 13 in June of 1978, the property tax was the primary source of controllable revenue available to local general purpose governments. In fiscal 1977-78 the property tax accounted for more than half of county discretionary revenues and more than one-quarter of city revenues. Although the state had imposed property tax rate limits in 1972, the rapid growth of assessed values through the middle and late 70's had permitted property tax levies to rise more rapidly than the general price level during this period.

The significance of the property tax in the pre-Proposition 13 local revenue system was twofold. In addition to the magnitude of the revenues it produced, it was the only major source of revenue that was controllable at the local level. The rate of the sales tax, the other major local revenue source, has been fixed in state statute since 1956. Local governments, particularly counties, tended to follow a practice of setting annual property tax rates on the basis of the amount of revenue deemed necessary to fund the local share of state or state/federal mandated programs plus the discretionary local programs, after taking into account available revenues from other sources.

The passage of Proposition 13 in 1978 and subsequent financial assistance legislation profoundly altered the revenue system of local government and the fiscal relationships that had previously existed between the state and cities, counties and special districts. The one percent rate ceiling and assessment restrictions of Proposition 13 literally demolished the existing property tax system. The revenue from

this source was reduced by $7 billion and the control over the rate of the tax was lost--not only to the elected officials of local jurisdictions but to the voters as well.

The state responded to this crisis in June of 1978 by enacting a massive fiscal assistance measure which incorporated substantial increases in apportionments and categorical program aids to schools; assumption by the state of the counties' share of costs of state or federally mandated health and welfare programs; and the provision of block grants to cities, counties and special districts. A statutory formula was adopted, as required by the constitutional amendment, to allocate property tax revenues from the one percent rate to the various local entities which had previously been levying individual tax rates.

In the year following the passage of Proposition 13 the Legislature acted to make permanent the fiscal relief which had been provided in 1978-79 on a one-year basis. Although the "permanent" fiscal plan altered somewhat the nominal form of the relief that had been provided in the previous year, the magnitude and distribution of that relief did not significantly change. State assumption of major health and welfare program costs was continued and the block grants were replaced with like amounts of property tax revenues shifted from the school districts to cities, counties and special districts. Revenue lost to the school districts were replaced by increasing the basic apportionments. The allocation of property taxes established in the first year was continued with the added provision that revenues derived from growth in assessed values would accrue to the benefit of the local jurisdictions within which the growth occurred.

The "bail-out" legislation of 1978 and 1979 brought about a substantial shift to the state in the funding responsibilities for major health and welfare programs. Despite this shift of financing, few changes were made in functional mandates imposed on local governments. Local governments now find themselves heavily dependent on the state, not only for support of mandated programs, but because the Constitution now prohibits any increase in the property tax rate and the state exercises control over the distribution of the revenue from this source. Local tax increases now require a 2/3 vote of the electorate, also constitutionally required as a result of Proposition 13. Local government representatives are becoming increasingly involved in the state budget process to the point where a "unified state and local budget" has been suggested by one local task force.

To date there has been no comprehensive evaluation of the net impact of Proposition 13 and the fiscal assistance provided by the state to local governments. Reports issued during 1979 by the Department of Finance and the Legislative Analyst pursuant to provisions of 1978 legislation were based primarily on budget data provided by local governments. This information was acknowledged to be incomplete and the findings of both the department and the Analyst's Office were inconclusive. Most knowledgeable observers agree that the full impact of Proposition 13 is not yet known and may not be known for several years.

Proposition 4, an initiative constitutional amendment approved by the voters in November 1979, imposes appropriation limits on all units of local government. To date Proposition 4 has apparently had little effect on most cities and counties. The long range effects of these limits on the delivery of local services, however, is unknown.

One of the most serious obstacles to evaluating the current or future fiscal condition of local governments is the diversity of the services performed, the nature of the delivery systems, and the economic, demographic and political factors that have influenced the nature and level of services provided by any given jurisdiction. Probably the most complicating factor in any analysis of local government is the bewildering array of special purpose entities, which include both single purpose and multi-purpose special districts, redevelopment agencies, joint powers agreements and sub-local "zones" or areas. Special districts are legally capable of providing an almost complete range of municipal service, including police and fire protection, parks and recreation services, transit, utilities and road or sewer maintenance. In any given location in the state, a particular service may be provided by the county, city, a multi-purpose or a single purpose special district. Further complicating comparative analyses are the variety of arrangements that exist for the delivery of services. A city, for example, may contract with a county, special district or private contractor for the provision of a particular service.

Service levels also vary significantly from one jurisdiction to another as the result of both political and socio-economic factors. Service levels may be high or low in a particular community as a result of a combination of "need" (e.g., a high crime rate or a high potential for flood or fire damage in a particular area), and the residents' willingness or unwillingness (pre-Proposition 13) to tax themselves. The factors influencing service level differences were reflected in the wide variations in property tax rates that existed prior to Proposition 13, and are now permanently embedded in our system of allocating property tax revenues.

Because of this diversity of service types and service levels, this study focuses on the changes in levels of revenues and expenditures that have occurred since Proposition 13. Chapters II and III analyze the trends in revenues and expenditures for cities and counties, respectively, as well as discussing changes in employment, capital outlay, and selected measures of service levels. In Chapter IV, we discuss the legal powers of cities and counties to raise revenue in the post-Proposition 13 era. In Chapter V, we summarize the key issues raised by county and city staff we interviewed in the course of this study. In Chapter VI, we discuss the issues involved in measuring "need" and present the results of an illustrative formula for measuring needs in California cities. In Chapter VII, we discuss a number of recommendations for further study in the area of state and local government finance.

Methodology

The information discussed in this study was drawn from several sources, the primary ones being the 35 field interviews conducted with county and city management and budget staff and the results of the written financial survey mailed to 150 cities and 21 counties. Useable responses to the surveys were received from 98 cities and 18 counties. The questionnaires are reproduced in Appendices III and IV. A variety of other existing data sources on city and county financial affairs were also utilized in the course of our study. These sources are acknowledged throughout the report.

Lists of the persons we interviewed and the cities and counties that returned our written survey are contained in Appendices IX, X, and XI. We believe that the information in both our city and county survey

samples is representative of the general fiscal conditions affecting cities and counties. However, the relatively low response rates for cities with populations under 10,000 and counties with populations under 100,000 would indicate that caution should be exercised when generalizing from our data about small cities and counties.

CHAPTER II

Changes in City Fiscal Conditions 1977-78 to 1979-80

A) City Revenue Trends*

Total Revenues

During the period from 1977-78 to 1979-80 total city revenues from all sources grew by 10.1 percent, increasing from $5.25 billion to $5.78 billion. The following table indicates how the growth in total revenues varied among cities of different population size.

Table II-1

Growth of Total Revenues for California Cities 1977-78 to 1979-80

Population Size Group	Number of Cities in Group	Percent Growth in Total Revenues
1. Under 10,000	165	10.8
2. 10,000 - 19,999	57	12.6
3. 20,000 - 49,999	113	10.6
4. 50,000 - 99,999	57	10.0
5. 100,000 - 300,000	19	13.6
6. Over 300,000	5	7.9
Average for all cities		10.1

(Source: Controller's Annual Report for Cities 1977-78 and 1979-80)

As the table indicates, the five largest cities (Long Beach, Los Angeles, Oakland, San Diego, and San Jose) had a significantly lower growth rate than the statewide average. This low growth rate was primarily due to the low growth rate of the City of Los Angeles (4.9 percent) and the negative growth rate of Oakland (-1.7 percent). The other three cities had total revenue growth rates near or above the state average.

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*Throughout this report San Francisco is treated as a county.

Changes in Revenue Sources

Table II-2, Percentage Changes in City Revenue Sources 1977-78 to 1979-80, displays the growth rates of the major sources of city revenues during the study period. It shows both the average growth rate for all cities and the growth rates experienced by cities in each of the six population size groups we studied.

As the table indicates, property tax revenues fell by nearly a third over this two year period as a result of the passage of Proposition 13. Since property taxes constituted over 22 percent of total city revenues prior to Proposition 13, this sharp decline

Table II-2

Percentage Changes in City Revenue Sources 1977-78 to 1979-80

Revenue Source	Population Group: Under 10,000	10,000 to 19,999	20,000 to 49,999	50,000 to 99,999	100,000 to 300,000	Over 300,000	Overall Average Growth Rate
Property Tax[a]	-17.8	-35.2	-33.2	-33.0	-30.1	-33.2	-32.2%
Sales Tax	32.6	37.6	29.8	30.1	29.2	29.4	30.3
Other Local Taxes	43.7	41.1	40.5	35.3	-0.7	36.7	31.5
Grants from Federal and State Government	-26.5	-11.7	-21.9	-26.6	0.9	-5.5	-11.8
User Fees and Charges	20.3	18.2	40.8	38.3	32.1	48.3	38.5
State Shared Revenues[b]	19.7	21.2	22.7	22.9	20.0	20.5	21.5
Use of Money and Property	168.8	148.7	156.2	143.7	138.0	88.0	125.4
Federal Revenue Sharing	8.4	13.9	18.5	16.4	-2.1	3.9	8.4
Licenses and Permits	10.1	15.9	5.5	11.4	13.1	15.1	11.9
Fines	21.4	26.4	25.6	33.3	34.2	27.1	28.8
Other Revenues	18.5	72.9	6.6	14.3	14.1	26.6	19.9
Total Revenues	10.8	12.6	10.6	10.0	13.6	7.9	10.1%

[a]The property tax category includes all property taxes, including those shifted from schools under AB 8 of 1979, plus state subventions for homeowner and business inventory tax relief.

[b]State Shared Revenues include state subventions for vehicle license fees, gas tax, alcoholic beverage licenses, and cigarette taxes.

in revenue depressed overall revenue growth despite increases in sales taxes (30.3 percent - the same growth rate experienced by the state), other local taxes (31.5 percent) and user fees and charges (38.5 percent). Another important factor in the growth rate of total city revenues was the sharp decline (-11.8 percent) in grants from the federal and state government under a variety of categorical aid programs, including the federally funded CETA program (-31.1%) and a wide variety of smaller federal grant programs. Increased federal funds flowed into the CDBG and UDAG programs but these were not sufficient to offset the reductions noted above. Revenues from the use of money and property grew by 125.4 percent over the study period, largely because of the record high interest rates applicable to reserves and other temporarily idle cash balances. A substantial portion of these interest earnings are restricted in use and must be applied to the same purposes as are the fund balances that generated the interest. Examples include gas tax funds, federal employment program grants, and state and federal construction grants.

Mix of Revenue Sources

Table II-3, Individual Sources as a Percentage of Total City Revenues for 1977-78 and 1979-80, shows the relative importance of individual revenue sources. As the table indicates, the property tax has given up its role as the most important city revenue source and has been replaced by the sales and use tax. Other local taxes, such as utility user taxes and business license taxes, are now nearly as large a revenue source as the post-Proposition 13 property tax. The utility user tax, now levied only by charter cities, is the major component of the "other local tax" category, producing $254 million in 1979-80. Another major development in city finances is the reduced role of federal and state

Table II-3

Individual Revenue Sources as a Percentage of Total City Revenues for 1977-78 and 1979-80

Revenue Source	Percent of Total Revenues 1977-78	1979-80
Property Tax[a]	22.4	13.8
Sales Tax	16.7	19.7
Other Local Taxes	10.0	11.9
Grants from Federal and State Government	19.5	16.5
User Fees and Charges	7.8	9.9
State Shared Revenues[b]	7.2	8.0
Use of Money and Property	3.2	6.5
Federal Revenue Sharing	3.8	3.7
Licenses and Permits	2.1	2.1
Fines	1.7	1.9
Other Revenues	5.6	6.0
Total	100.0	100.0

[a]The property tax category includes all property taxes, including those shifted from schools under AB 8 of 1979, plus state subventions for homeowner and business inventory tax relief.

[b]State Shared Revenues include state subventions for vehicle license fees, gas tax, alcoholic beverage licenses, and cigarette taxes.

categorical aid grants in city budgets. This reflects the sharp drop in federal grants discussed above and can be expected to intensify as a result of the Reagan administration's proposed federal budget cuts.

As Table II-4, Tax and Non-Tax Revenue Support of City Budgets 1977-78 and 1979-80, indicates almost three quarters of total city revenues come from local taxes or the proceeds of state or federal taxes. Only slightly more than one quarter of city revenues come from user fees, licenses, permits, interest earnings and other miscellaneous revenue sources. While non-tax revenues have increased their role in city finance in the post-Proposition 13 era, they still play a secondary role.

Table II-4

Tax and Non-Tax Revenue Support of City Budgets 1977-78 and 1979-80

Tax Based Revenues	1977-78	1979-80
Property, Sales and Local Taxes	49.1%	45.4%
State Shared Taxes	7.2	8.0
Federal Revenue Sharing	3.8	3.7
Federal and State Grants	19.5	16.5
Subtotal	79.6	73.6
Non-Tax Revenues		
User Fees and Charges	7.8	9.9
Licenses, Permits, Fines	3.8	4.0
Other Revenues	8.8	12.5
Subtotal	20.4	26.4
Total	100.0%	100.0%

Revenue Growth Compared to Inflation and Population Change

During the 1977-78 to 1979-80 period the population of California's cities (excluding San Francisco) grew by 4.5 percent (from 16.10 to 16.88 million). During this same period the rate of inflation, as measured by the Gross National Product implicit price deflator for state

and local government purchases of goods and services, was 14.7 percent. As a result, city revenues would have had to have grown by 19.9 percent over the study period to have kept pace with inflation and population change. As was noted above, the actual growth rate of total revenues was 10.1 percent. As a result, real revenues per capita (inflation adjusted) fell by over 8.2 percent during the 1977-78 to 1979-80 time period.

If we use the California Consumer Price Index, instead of the G.N.P. implicit price deflator, the decline in real revenues per capita become even more pronounced. Inflation, as measured by the C.P.I. was 28.2 percent during this period. When inflation is compounded with the population change total revenues would have had to have grown by 34.0 percent during the 1977-78 to 1979-80 period in order to have kept pace. When compared to the actual change in total revenue of 10.1 percent, this would have resulted in a 17.5 percent reduction in real per capita revenues for California cities.

We believe, however, that the Consumer Price Index overstates the impact of inflation on city budgets. The G.N.P. implicit price deflator presents a more realistic measure of inflationary pressure on city budgets. Both measures are presented, however, to give the reader an idea of the range of the possible effects on city budgets.

City "Discretionary" Revenues

The concept of local "discretionary" revenues is a useful one for gaining an understanding of city budgets. Discretionary revenues are those revenues available to a city that may be applied to any lawful purpose at the discretion of the local governing body. Such revenues

are distinct from federal and state grants or earmarked revenues (such as the state gasoline tax) and revenues received from fees charged for the provisions of specific services such as garbage collection or water supply.

For purposes of the study we have defined "discretionary" revenues to include the following items:

- Sales Taxes
- Property Taxes
- Homeowner and Business Inventory Property Tax Relief Subventions
- Other Local Taxes
- Federal Revenue Sharing
- Vehicle License Fees (in-lieu tax)
- Cigarette Taxes
- Alcoholic Beverage License Fees
- Fines and Penalties
- Licenses and Permits
- Revenue From the Use of Money and Property
- Net Contribution from City Enterprises

These discretionary revenues are the primary resource for funding basic municipal services. The growth pattern of these discretionary revenues is a very good indicator of a city's basic capability to maintain or expand its most basic or essential services. For our purposes, basic municipal services may be defined as those public services that are generally the exclusive domain of government and are not provided by the private sector. These include police and fire services, general land use regulations, the exercise of general legislative and executive functions by a city government and street programs.*

The following two tables summarize the information about city discretionary revenues during the study period.

*In 1978-79, 41 percent of total city street expenditures were city general fund financed while only 29 percent were financed from gas tax and other state shared revenues.

Table II-5

Summary Information on
City Discretionary Revenues

	1977-78	1979-80	Growth
Total Discretionary Revenues	$3.48 billion	$3.94 billion	13.2%
Average Per Capita Discretionary Revenues	$211.40	$232.14	9.8%
Value of Per Capita Discretionary Revenues in Constant 1977-78 Dollars	$211.40	$202.30	-4.3%
Discretionary Revenues as a Percentage of Total City Revenues	66.3%	68.2%	--

Table II-6

Constant Dollar Per Capita
City Discretionary Revenues

City Size	Number of Cities	1977-78 Per Capita Discretionary Revenues	1979-80 Per Capita Discretionary Revenues (Constant $)	Growth
0 - 9,999	165	$224.55	$220.10	-2.0%
10,000 - 19,999	57	192.90	190.67	-1.2
20,000 - 49,999	113	171.40	164.51	-4.0
50,000 - 99,999	57	182.00	179.94	-1.2
100,000 - 299,999	19	210.23	203.95	-3.0
300,000 +	5	264.78	246.10	-7.1
Average for all cities		$211.40	$202.39	-4.3%

As Table II-5 indicates, city per capita discretionary revenues measured in constant 1977-78 dollars declined by 4.3 percent between the 1977-78 and 1979-80 fiscal years. By 1979-80, cities on the average, had slightly less than 96 percent of the 1977-78 per capita purchasing power that they had in 1977-78. These discretionary revenues represent

approximately two-thirds (68.2 percent) of total city revenues and are the main source of financing for basic city services. It should be noted that this drop in constant dollar discretionary revenues was further reinforced by the 11.8 percent drop (current dollars) in federal and state grants. (In inflation-adjusted terms the drop in federal and state grants was even more severe, experiencing a 23.7 percent decline over the 1977-78 to 1979-80 period.)

As Table II-6 indicates, all classes of cities experienced a decline in their per capita discretionary revenues after adjustment was made for the effects of inflation. The most severe decline occurred in the largest cities (over 300,000 population). Among the largest cities, Oakland experienced the largest decline (-9.45 percent) with Los Angeles a close second (-8.88 percent). Only San Jose showed an increase, registering a 3.6 percent increase in per capita discretionary revenues measured in constant 1977-78 dollars.

The Role of User Fees and Charges

User fees and charges, while experiencing rapid growth during this period (38.5 percent), still provide less than 10 percent of total city revenues. Their role as a total replacement for property or other tax sources has, perhaps, been exaggerated. User fees and charges are practical in those situations where the person paying the charge receives a specific good or service, such as garbage collection, recreation, or capital improvements such as curbs or sidewalks. It is considerably more difficult to assess fees accurately for public goods such as law enforcement, planning services, or general street maintenance. While aspects of the street program or fire protection could be shifted to user fees (gas taxes or fire fees based on private insurance premiums),

our state has been slow to embrace such major shifts from tax support to user fee support. A serious issue related to greater reliance on fees rather than taxes to support city services is the impact of such a shift on the progressivity of the total state and local finance system. Local officials we interviewed expressed concern about the impacts on low-income citizens of user fees for recreation, paramedic, library, and other municipal services. While economic theory and the Proposition 13 imposed barriers to raising local taxes (i.e., 2/3 vote requirement) make greater reliance on fees an attractive alternative for hard-pressed local governments, most officials we interviewed did not believe that such charges could assume a larger share of the financing burden now borne by taxes.

We examined the growth of fees and charges among our 95 survey cities. The following table summarizes the changes that occurred during the study period for fees and charges reported in our survey.

Charge	Revenue (in millions) 1977-78	1979-80	Percent Change 1977-78 to 1979-80
Sewer Fees	$ 46.1	$ 70.8	54%
Garbage Fees	43.4	54.6	26
Park and Recreation Fees	33.7	43.6	29
Other Fees and Charges	68.9	82.2	19
Total	$192.1	$251.2	31%

As the table indicates, sewer fees were the fastest growing service charge in our sample cities. This rapid growth was caused by federal requirements that sufficient user charges be levied to maintain and

operate federally funded sewer projects. The other charges recorded in our survey experienced growth that was significantly slower but still represented a real increase during the study period.

Another area of interest concerns the charges levied on construction activity by cities in our sample. Due to the different ways cities choose to levy charges on construction activity (permits, fees, taxes) we have combined the three different categories in our survey that relate to revenue generated from construction activity to prepare the following table. The data presented below are drawn from the 95 cities responding to our survey.

Charge	Revenue (in millions) 1977-78	1979-80	Percent Change 1977-78 to 1979-80
Land Development Fees	$ 41.4	$ 58.3	41%
Construction Permits	46.1	49.5	7
Construction Taxes	17.1	30.5	78
Total	$104.6	$138.3	32%

As the table indicates, all municipal charges on construction activities rose 32 percent during the study period, led by a 78 percent increase in construction taxes. Two cities in our survey (Sacramento and San Jose) indicated that they approved substantial construction taxes prior to July 1, 1978, as a way to finance capital facilities (parks, streets, etc.) needed to service new development. The fastest growth in all of these fees and taxes was experienced in rapidly growing communities (Fairfield and San Jose) or in smaller communities that had low levels of fees prior to Proposition 13.

B) City Expenditure Trends 1977-78 to 1979-80

Total Expenditures

During the 1977-78 to 1979-80 period total city expenditures, as reported to the State Controller grew by 14.7 percent, rising from $4.82 billion to $5.53 billion. The following table indicates how the growth in total expenditures varied among cities of different population size and how growth in expenditures compared to revenues.

Table II-7

Growth of Total Expenditures and Revenues for California Cities 1977-78 to 1979-80

Population	Number of Cities	Percent Change in Total Expenditures	Percent Change in Total Revenues
Under 10,000	165	5.6%	10.8%
10,000 - 19,999	57	8.8	12.6
20,000 - 49,999	113	12.2	10.6
50,000 - 99,999	57	9.3	10.0
100,000 - 299,999	19	16.2	13.6
Over 300,000	5	20.2	7.9
Growth Rate for all Cities		14.7%	10.1%

(Source: Annual Report of Financial Transactions Concerning California Cities 1977-78, 1979-80. State Controller)

As Table II-7 indicates the growth of city expenditures varied widely among cities of different sizes. These figures are distorted because of reporting errors in the Controller's data. Large amounts of city expenditures were not reported by cities in prior years. The rapid growth in city expenditures in the 1977-78 to 1979-80 period appears to be due in part to more accurate and complete reporting of expenditures from grant funds in 1979-80 as compared to earlier years. Grant funds are recorded as city revenues in the reports filed with the Controller, but cities have in the past failed to report the expenditure of these

dollars when they are transferred to municipal enterprise funds or other governmental units (CETA projects, joint powers authorities, redevelopment agencies, etc.). As a result, California cities have historically shown large differences between total current revenues and total current expenditures reported to the Controller. While part of this difference represents the accumulation of reserve funds (general reserves, reserves for self insurance, construction and equipment reserves) a significant portion of this gap reflect the failure to report accurately the expenditure (or transfer) of a substantial portion of city revenues.

In general, revenue data presented in the Controller's report appear to be more accurate and useful than expenditure data. Therefore, we have based our analysis of city expenditure patterns on data gathered from the A.O.R. survey. The survey was completed by 94 cities and contains sufficient replies from cities in each population size group to present useful information for each group. Because the sample was intentionally biased towards the largest cities (those over 50,000), conclusions about trends in the smaller cities should be considered to be much more tentative than those involving the larger cities.

Distribution of City Current Expenditures

Table II-8, Distribution of City Current Expenditures Across Functional Areas: 1977-78 and 1979-80, shows the distribution of city spending in the 94 cities responding to the A.O.R. survey. Public safety expenditures (police and fire) represent the single largest component of city expenditures constituting 42.7 percent of total spending in 1979-80, up from 39.0 percent in 1977-78. Following closely behind

are the "general government" (14.1 percent) and "street and other public works" (13.0 percent) functions. These spending patterns hold true for "full service" cities of all population sizes.

As examination of Table II-8 makes it clear that the bulk of city current expenditures are focused on what might be described as the

Table II-8

Distribution of City Current Expenditures
Across Functional Areas: 1977-78 and 1979-80

Function[a]	Percent of Total Current Expenditures 1977-78	1979-80
General Government	15.5%	14.1%
Police	25.7	27.9
Fire	13.3	14.8
Solid Waste	3.3	3.7
Liquid Waste	2.5	2.0
Streets and Other Public Works	13.9	13.0
Parks and Recreation	8.7	8.6
Libraries	2.7	2.5
Community Development	3.2	3.4
Other Programs	11.2	10.0
Total	100.0%	100.0%

N = 94 Cities Responding
(Source: A.O.R. City Finance Survey)

[a]See Appendix III for definitions of these terms.

"basic" or core municipal services of police, fire, street, public works and sanitation services. The following table summarizes the city spending data presented in Table II-8.

Basic Municipal Services	Percent of Total Expenditures 1977-78	1979-80
Public Safety	39.0%	42.7%
Waste Disposal	5.8	5.7
Streets and Public Works	13.9	13.0
Subtotal	58.7	61.4
Management and Supplemental Services		
General Government	15.5	14.1
Parks, Recreation, and Libraries	11.4	11.1
All Other Programs	14.4	13.4
Subtotal	41.3	38.6
Total	100.0%	100.0%

Over three-fifths of city spending is focused on services which we have defined as basic municipal activities. As a result, reductions in total city expenditures that spare "essential services" must fall heavily on the remaining two-fifths of municipal activities.

Spending Patterns: Full vs. Partial Service Cities

When examining fiscal trends in California cities it is important to distinguish between "full service" and "partial service" cities. A partial service city may be defined as a city that does not provide the full or normal range of municipal services because a special district or the county is responsible for such services. For purposes of our study, partial service cities include cities where a fire district provides fire protection service or where the city contracts with another local agency for the provision of fire or police services and special districts provide library or park services. "Partial service" cities have a spending pattern which differs from the pattern exhibited by full service cities. Table II-9, Full Service Cities' Current Expenditures

1977-78 to 1979-80, presents information concerning the spending patterns of full service cities in our sample. Table II-10, Partial Services Cities' Current Expenditures 1977-78 to 1979-80, presents similar information for partial service cities in our sample.

Table II-9

Full Service Cities'
Current Expenditures 1977-78 to 1979-80

Function	Percent of Total Current Expenditures		Per Capita Current Expenditures		
			Current Dollars		Constant 1977-78 Dollars
	1977-78	1979-80	1977-78	1979-80	1979-80
General Government	15.1	13.7	$ 45.68	$ 43.70	$ 38.10
Police	25.7	27.9	77.56	88.71	77.34
Fire	13.7	15.3	41.21	48.67	42.43
Solid Waste	3.3	3.8	9.97	11.96	10.43
Liquid Waste	2.6	2.0	7.82	6.34	5.53
Streets and Other Public Works	13.7	12.7	41.16	40.44	35.26
Parks and Recreation	8.6	8.5	25.92	27.11	23.64
Libraries	2.8	2.6	8.42	8.27	7.21
Community Development	3.1	3.3	9.42	10.34	9.01
Other Programs	11.4	10.2	33.54	31.92	27.83
Total	100%	100%	$301.31	$317.86	$277.13

Growth in Current Dollars: 5.5%

Growth in Constant Dollars: -8.0%

N = 74
(Source: A.O.R. City Finance Survey)

Table II-10

Partial Service Cities'
Current Expenditures 1977-78 to 1979-80

Function	Percent of Total Current Expenditures 1977-78	Percent of Total Current Expenditures 1979-80	Per Capita Current Expenditures Current Dollars 1977-78	Per Capita Current Expenditures Current Dollars 1979-80	Per Capita Current Expenditures Constant 1977-78 Dollars 1979-80
General Government	24.2	21.8	$ 33.46	$ 33.90	$ 29.55
Police	25.2	27.2	34.97	43.12	37.59
Fire	4.5	2.8	6.18	4.36	3.80
Solid Waste	2.1	2.0	2.88	3.06	2.67
Liquid Waste	1.0	1.6	1.36	2.52	2.20
Streets and Other Public Works	19.3	20.8	26.73	32.41	28.26
Parks and Recreation	11.3	11.4	15.00	17.91	15.61
Libraries	1.2	1.0	1.69	1.56	1.36
Community Development	4.7	6.3	6.52	9.88	8.61
Other Programs	6.5	5.1	9.10	7.83	6.83
Total	100%	100%	$138.49	$156.56	$136.49

Growth in Current Dollars: +13.0%

Growth in Constant Dollars: -1.4%

N = 20
(Source: A.O.R. City Finance Survey)

As Tables II-9 and II-10 indicate, partial service cities spend a considerably smaller portion of their budget on fire protection (2.8 percent vs. 15.3 percent) than do full service cities. They spend a substantially larger portion on "streets, public works, and waste disposal" (24.4 percent vs. 18.5 percent) and "general government" (21.8 percent vs. 13.7 percent) than do full service cities. Partial service cities experienced much faster growth in expenditures (13.0 percent vs. 5.5 percent) than did the full service cities, which reflects the fact that the partial service cities had relatively low property tax rates or levied no property tax prior to Proposition 13.

The distinction between full and partial service cities should be borne in mind when assessing the impact of Proposition 13's reduction in property tax revenues on municipal services. Due to the fact that special districts provide fire protection in the partial service cities we did not collect data on fire service levels in these communities. Since fire districts were almost totally dependent on property taxes for their funding they were substantially affected by Proposition 13. Reductions in their service levels, and hence impacts of these cuts on the "partial service" cities have not been picked up by our study. As a result, we may understate the impact of recent events on the level of basic services in the less than full service cities.

Finally, there is a substantial difference in the per capita spending levels of full and partial service cities. In our sample, full service cities in 1979-80 spent $317.86 per capita for current services while partial service cities spent only $156.56 per capita. While it is true that the partial service cities due tend to be smaller in size, their per capita spending is substantially smaller than that of the two smallest city size groups in our survey. Cities under 10,000 population spent $245.10 per capita in 1979-80 and cities between 10,000 and 20,000 spent $205.12 per capita.

Growth Rates of Current Expenditures

Table II-11, Percentage Changes in City Expenditures by Function: 1977-78 to 1979-80, presents the growth rate of spending for the major city functions in both full and partial service cities in our sample.

Table II-11

Percentage Changes in City Expenditures by Function
1977-78 to 1979-80

Function	Percentage Change (in current dollars) Full Service Cities (N=74)	Partial Service Cities (N=20)	All Cities in Sample
General Government	-1.4%	5.6%	-1.0%
Police	17.8	28.5	18.2
Fire	21.7	26.5	21.1
Solid Waste	23.5	10.7	23.2
Liquid Waste	-16.5	93.5	-14.9
Streets and Other Public Works	1.2	26.3	2.5
Parks and Recreation	7.7	19.6	8.3
Libraries	1.2	-3.6	1.1
Community Development	13.1	57.9	15.6
Other Programs	-2.0	-10.4	-2.0
Total	8.7%	17.8%	9.0%

Of the major city functions, police and fire service expenditures were the fastest growing components of city expenditures, registering gains of 18.2 and 21.1 percent respectively. While the "solid waste" and "community development" (planning, code enforcement, building inspections) registered substantial gains they collectively represent slightly more than 7 percent of city expenditures while police and fire services consume over 42 percent of city expenditures. The decline in spending on sewage services appears to be due to a shift from general fund budgets to special enterprise fund budgeting.

The "general government" function showed an absolute decline in spending over the survey period. Since a consistent survey format was used to gather data for all three years (1977-78 to 1979-80), this decline cannot be due entirely to a reclassification of spending from general government to other functions. It appears that some of the

celebrated "fat" has been cut from city budgets. Finally, the table also shows the low growth rates for the street, park, and library functions (2.5 percent, 8.3 percent and 1.1 percent respectively).

Municipal Priorities

Changes in spending for each municipal function reflect the local priorities discussed by city officials we interviewed. Without exception, city staff indicated that police and fire services were given the highest priority, while general government, street, park, and library programs were hardest hit by recent reductions in city revenues.

Per Capita Spending Levels and the Impact of Inflation

Table II-12, City Per Capita Current Expenditures by City Population Size Group, shows how per capita spending levels have changed during the study period for cities in the various population size classes. While the growth rates have varied between the various classes, cities in all population size classes showed a decline in per capita expenditures after adjustment was made to account for the impact of inflation (as measured by the G.N.P. deflator discussed earlier). The loss in per capita purchasing power ranged from a loss of 1.4 percent in the 10-20,000 population group to a loss of 8.1 percent in the 100-300,000 population group. The average was a loss of 7.8 percent in per capita purchasing power. This represents a sizeable reduction in the "real" resources available to cities and is consistent with the 8.2 percent decline in "real" city revenues discussed earlier.

Table II-12

City Per Capita Current Expenditures
by City Population Size Group

Population	Per Capita Current Expenditures (Current Dollars) 1977-78	1979-80	Growth Rate	Constant 1977-78 1979-80 Dollars	Growth Rate 1977-78 to 1979-80
Under 10,000	$233.96	$245.10	4.8%	$213.69	-8.7
10,000 - 19,999	181.45	205.12	13.0	178.83	-1.4
20,000 - 49,999	205.93	224.71	9.1	195.91	-4.9
50,000 - 99,999	224.50	238.47	6.2	207.90	-7.4
100,000 - 299,999	276.46	291.57	5.5	254.20	-8.1
Over 300,000	341.38	360.91	5.7	314.65	-7.8
Total	$288.76	$305.29	5.7	$266.16	-7.8

N = 94

(Source: A.O.R. City Finance Survey)

Table II-13, City Per Capita Current Expenditures By Function: 1977-78 and 1979-80, provides further evidence of the impact of inflation on per capita municipal spending and also reflects the priorities cities have assigned to the various municipal functions. Once again it is clear that police and fire services have been given top priority, as they are two of the three categories that did not suffer a loss of per capita purchasing power after correcting for inflation. The areas hardest hit by funding cutbacks included general government, libraries, streets and other public works, and other miscellaneous programs. After correction is made for the impact of inflation it is clear that substantial reductions have been made in each of the areas noted above.

Table II-13

City Per Capita Current Expenditures
By Function: 1977-78 and 1979-80

Function	Per Capita Current Expenditures				
	Current Dollars			Constant 1977-78 Dollars	
	1977-78	1979-80	Growth Rate (%)	1979-80	Growth Rate (%)
General Government	$44.70	$42.90	-4.0%	$37.40	-16.3%
Police	74.28	85.16	14.6	74.20	0.0
Fire	38.51	45.22	18.7	39.42	2.4
Solid Waste	9.43	11.26	19.4	9.81	4.0
Liquid Waste	7.32	6.04	-17.5	5.26	-28.1
Streets and Other Public Works	40.05	39.81	-0.6	34.70	-13.4
Parks and Recreation	25.13	26.39	5.0	23.00	-8.5
Libraries	7.90	7.75	-1.9	6.75	-14.6
Community Development	9.19	10.30	12.1	8.97	-2.4
Other Programs	31.65	30.04	-5.1	26.19	-17.3
Total	$288.76	$305.29	5.7%	$266.16	-7.8%

N = 94
(Source: A.O.R. City Finance Survey)

Distribution of City Expenditures By Object of Expenditure

Table II-14, City Current Expenditures by Object of Expenditure, shows how city current expenses are divided among employee compensation, operating expenses, equipment and minor capital expenses, and other expenditures such as debt service and contract payments to other persons or entities. Employee compensation makes up nearly 70 percent of city expenditures for current operations. Operating expenses (fuel, utilities, insurance, supplies, etc.) constitute 22.9 percent of city expenditures for current operations. The remaining 7.6 percent of city operating expenditures are devoted to equipment and minor capital outlay (2.3 percent) and other expenses (5.3 percent).

Table II-14

City Current Expenditures
By Object of Expenditure

Object of Expenditure	Percentage of Total Current Expenditures 1977-78	1979-80	Growth 1977-78 to 1979-80 (%)
Compensation			
Wages and Salaries	53.2%	51.3%	5.1%
Other Employee Benefits	4.1	5.0	33.6
Retirement	11.9	13.2	20.1
Subtotal	(69.3)	(69.5)	(9.5)
Operating Expenses	22.7	22.9	9.8
Equipment and Minor Capital	2.5	2.3	1.5
All Other Expenditures (includes debt service)	5.5	5.3	5.2%
	100.0%	100.0%	

N = 87
(Source: A.O.R. City Finance Survey)

Table II-14 also shows the growth rates of spending for each category. The low growth in the wages and salaries category appears to be due to the substantial reduction in the number of city jobs in our survey cities. These employment statistics will be discussed in greater detail in the section of this report dealing with employment trends. It is useful to note here, however, that total employment in our 94 sample cities dropped from 94,523 to 86,850 between 1977-78 and 1979-80, a loss of 7,673 jobs. This reduction allowed cities to grant remaining employees pay increases required to keep up with labor market trends (but not CPI) while holding total salary and wage growth to 5.1 percent. The rapid growth of the "retirement" (20.1 percent) and the "other employee benefits" (33.6 percent) categories reflect the impact of inflation on the costs of medical coverage and retirement benefits. Several cities in our

sample (particularly Los Angeles and Oakland) maintain independent city pension systems that have experienced rapid growth in employer contributions during the study period. These rapid increases do not represent increases in benefits to current employees but rather the current cost of funding past pension obligations (i.e., the unfunded liability problem).

Table II-15, Total City Expenditures: Division Between Capital and Operating Budgets, shows the breakdown of total city spending between the capital and operating portions of the budget. When capital spending

Table II-15

Total City Expenditures: Division Between Capital and Operating Budgets

Object of Expenditure	Percentage of Total 1979-80 Expenditure (%)	Growth Rate 1977-78 to 1979-80 (%)
Current Operations	88.1	9.0
Employee Compensation	(61.2)	(9.5)
Operating Expenses	(20.2)	(9.8)
Equipment and Minor Capital	(2.0)	(1.5)
All Other Expenses	(4.7)	(5.2)
Capital Outlay	11.9	15.0
Total	100.0	9.7

N = 94
(Source: A.O.R. City Finance Survey)

is included employee compensation still represents over 61 percent of total city expenditures. Operating expenses (20.2 percent) and capital outlay (11.9 percent) are the second and third largest components of city spending.

Growth of Contracting

We also collected data on the extent to which cities contract with other governmental units or private parties for the performance of municipal services. These contracting arrangements make up 2.8 percent of total city operating expenditures in 1979-80. Contract payments to private vendors increased by 27.2 percent between 1977-78 and 1979-80, while contract payments to other governmental units fell by 5.0 percent in the same period. In the aggregate, however, contracting arrangements grew by 20.2 percent during the study period. While by no means a dominant part of city spending, contracting out arrangements do appear to be a growing part of city budgets.

C) Trends in City Employment

Total City Employment

A review of information published by the Employment Development Department (EDD) and the Bureau of the Census as well as the data supplied in our city finance survey all indicate that the aggregate total level of city employment has declined during the study period. While these three sources vary in the absolute amount of the decline, all show the same trend.

The U.S. Bureau of the Census annually collects data on public employment at all levels of government. Nationwide census data show that cities have increased total employment (measured in full-time equivalents) by 2.1 percent during the period from October 1977 to October 1979. The same data indicate that California cities (including San Francisco) have reduced total employment (measured in full-time equivalents) by 6.3 percent, showing that patterns in California cities differ from those of other U.S. cities.

Data published by EDD indicate that total city employment (not measured on an FTE basis) declined by 2.1 percent during the October 1977 to October 1979 period. Later data available from EDD reveal that this decline has continued into the 1980-81 fiscal year. Total city employment (measured in October 1980) has declined by 5.7 percent from the level attained in October 1977, the year before Proposition 13.

Data used by EDD and the Bureau of the Census cover all city employment, including employees of municipal enterprises (water, power, sewers, and other utilities) as well as employees supported by tax funds. Since most enterprise funds are essentially self-supporting (from user fees) these areas of city employment have not been affected by recent cutbacks in city employment.

Non-Enterprise Fund Employment

Information provided by 94 cities responding to our city finance survey indicates that non-enterprise fund employment has declined by 8.1 percent in the 1977-78 to 1979-80 period. Table II-16, Percentage Changes in Total City Non-Enterprise Fund Employment (FTE) 1977-78 to 1979-80, shows that cities in all population size groups reported a

Table II-16

Percentage Changes in Total City Non-Enterprise Fund Employment (FTE) 1977-78 to 1979-80

Population Size Group	Number of Cities in Sample	Percent of Sample Cities With Job Loss	Percentage Change in Total Non-Enterprise Employment 1977-78 to 1979-80
Under 10,000	14	57%	-4.7%
10,000 - 19,999	8	75	-8.2
20,000 - 49,999	15	47	-2.6
50,000 - 99,999	39	62	4.4
100,000 - 299,999	13	77	5.8
Over 300,000	5	100	-11.0
Total Sample	94	64%	-8.1%

N = 94
(Source: A.O.R. City Finance Survey)

reduction in the total number of non-enterprise fund positions. Sixty-four percent of our 94 sample cities reported a reduction in their total non-enterprise employment. All five of California's largest cities reported reductions (Los Angeles, -12.7 percent; Oakland, -10.5 percent; San Diego, - 6.1 percent; San Jose, -5.7 percent; Long Beach, -3.8 percent).

Distribution of City Employment

Table II-17, Distribution of City Non-Enterprise Fund Employment By Function, 1977-78 and 1979-80, indicates that the public safety function (police and fire) is the single largest component of city non-enterprise fund employment, constituting 42.8 percent of the total in 1979-80 up from 40.4 percent in 1977-78. The street (14.8 percent), park (12.3 percent), and general government (12.3 percent) functions were the next most important functions in terms of city employment. The library, community development, and other program functions together constituted only 12.9 percent of city employment in 1979-80.

Table II-17

Distribution of City Non-Enterprise Fund Employment By Function, 1977-78 and 1979-80

Function	Percentage of Total Non-Enterprise Employment 1977-78	1979-80
General Government	12.6%	12.3%
Police	27.2	28.9
Fire	13.2	13.9
Waste Disposal (Solid and Liquid)	4.8	4.9
Streets and Other Public Works	14.8	14.8
Parks and Recreation	14.7	12.3
Libraries	4.4	4.2
Community Development	4.5	4.7
Other Programs	3.8	4.0
Total	100.0%	100.0%

Employment Growth Rates

Table II-18, Percentage Changes in City Non-Enterprise Employment By Function, 1977-78 to 1979-80, indicates that in our city survey sample every function experienced either no growth or a decline in total employment. The park (-23.1 percent), library (-14.0 percent), general government (-10.3 percent) and street (-8.4 percent) functions experienced the most severe drop in employment over the study period. The 13.4 percent drop in employment for the liquid waste disposal function resulted from several cities reclassifying this function as a municipal enterprise, removing these employees from the overall total.

Table II-18

Percentage Changes in City Non-Enterprise Employment By Function, 1977-78 to 1979-80

Function	Percentage Change 1977-78 to 1979-80
General Government	-10.3%
Police	-2.5
Fire	-3.2
Solid Waste	-1.9
Liquid Waste	-13.4
Streets and Other Public Works	-8.4
Parks and Recreation	-23.1
Libraries	-14.0
Community Development	-3.3
Other Programs	-0-
Total Growth Rate	-8.1%

Police and Fire Employment Trends

Table II-18 indicates that police and fire employment experienced the least decline of all major city functions. A further examination of our survey data indicates that total police employment increased in all city population size groups except the largest group. Table II-19, Employment Growth in the Police and Fire Functions, 1977-78 to 1979-80, illustrates this point.

Table II-19

Employment Growth in the Police and Fire Functions 1977-78 to 1979-80

Population Size Group	Police	Fire
Under 10,000	5.8%	-5.0%
10,000 - 19,999	10.9	-5.5
20,000 - 49,999	1.0	+4.0
50,000 - 99,999	0.7	-1.4
100,000 - 299,999	0.5	+1.5
Over 300,000	-4.9	-6.0
Total Sample	-2.5%	-3.2%

N = 94
(Source: A.O.R. City Finance Survey)

The decline in police function employment in the largest cities accounted for the overall decline in police employment. Of the five largest cities in our sample only Los Angeles (-5.7 percent) and Oakland (-4.7 percent) reported a decline in police employment. While the other cities (Long Beach, San Diego, and San Jose) reported increases. The decline reported by the City of Los Angeles should not be taken to mean that fewer police officers are "on the street." Cities in our survey were asked to report the number of budgeted FTE positions, and our field interviews revealed that Los Angeles' reported decline in the number of budgeted sworn police positions (7,411 in 1977-78 and 7,103 in 1979-80) did not reflect a decline in the number of officers on duty (approximately 6,600 to 6,700). Los Angeles city staff reported that the budgeted number of positions had not been filled due to difficulties in complying with affirmative action hiring requirements. With this in mind, we believe it would be fair to conclude that total city police employment actually increased over the study period. If we exclude the

Los Angeles data, total police employment (civilian and sworn) in our city survey sample increased from 14,646 in 1977-78 to 14,994 in 1979-80, an increase of 2.4 percent.

The reported decline in fire department budgeted positions, on the other hand, represents a slight decline in fire department staffing, though once again, the average was heavily influenced by Los Angeles' decline of -8.0 percent. All other cities in the largest population group reported constant employment levels (Long Beach) or increases (Oakland, San Diego, and San Jose). Growing cities with populations of 100,000 to 300,000 added fire staff, but these increases were balanced by declines reported by the smaller city groups.

In summary, police and fire employment were relatively "sheltered" from the much heavier reductions in employment which fell on all other city functions. Employment patterns reflect the expenditure data which indicated that the police and fire functions were the only major city functions which received spending increases sufficient to keep pace with inflation. Finally, in spite of the protection given to police and fire employment, it is important to note that the number of police and fire staff per 10,000 population has declined over the study period. Staffing levels have fallen from 25.5 police staff (sworn and civilian) and 17.1 fire department staff per 10,000 population in 1977-78 to 24.1 and 16.0 respectively in 1979-80.* While the public is currently demanding more public safety services (and higher staffing levels), many

*These figures do not reflect staffing ratios in communities served by special districts that provide fire services or communities that contract for police protection.

city officials we interviewed viewed the current tight budget situation as an opportunity to force their police and fire services to consider innovative and non-traditional approaches that might raise productivity and reduce the need to add expensive public safety manpower.

The Role of CETA in City Employment

The federally funded Comprehensive Employment and Training Act (CETA) program was a major source of funding for city employment. According to our city survey data CETA funded positions constituted 12.6 percent of total city employment in 1977-78. CETA funded positions were concentrated in the general government, street, park, library, and miscellaneous program areas. Reductions in CETA funding and federal regulations limiting CETA eligibility and prohibiting cities from supplementing CETA wages (limited to $10,000 per year) have forced many cities to drastically reduce CETA funded positions. Table II-20, CETA Program Employment in California Cities, presents data on the role this program plays in California's municipal employment sector.

Table II-20

CETA Program Employment in California Cities

Population Size Group	CETA Positions as a Percentage of Total City Employment 1977-78	1979-80	Percentage Change in Total CETA Employment 1977-78 to 1979-80
Under 10,000	18.5%	9.8%	-49%
10,000 - 19,999	14.4	11.6	-26
20,000 - 49,999	12.5	9.2	-28
50,000 - 99,999	12.1	8.0	-37
100,000 - 299,999	11.6	7.0	-43
Over 300,000	13.1	6.6	-55
Total Sample	12.6%	7.2%	-48%

Function	CETA as a Percentage of Total Employment by Function 1977-78	1979-80
General Government	16.1%	9.6%
Police	4.2	1.7
Fire	1.9	0.8
Solid Waste	2.9	2.8
Liquid Waste	7.4	1.4
Streets and Other Public Works	17.3	10.0
Parks and Recreation	27.0	12.4
Libraries	13.2	8.7
Community Development	18.0	12.4
Other Programs	29.2%	33.0%

N = 94
(Source: A.O.R. City Finance Survey)

In 1977-78, our 94 sample cities reported 11,920 CETA funded positions. This fell to 6,231 positions by 1979-80 a decline of 47.6 percent. As the above table indicates, CETA cutbacks fell most heavily on the general government, street, park, and library functions, the programs most heavily impacted by budget cutbacks.

The reduction in CETA positions (5,689) accounted for nearly 75 percent of the total number of positions lost (7,654) in our survey sample. While it is possible that most of the reduction in CETA positions would have occurred in spite of Proposition 13 (due to the rule changes and reduction in CETA funding discussed above) our data does make it clear that cities have been unable to expand non-CETA funded employment in order to retain lost CETA positions. Indeed, cities have eliminated many non-CETA positions in addition to the CETA cutbacks.

Given that further reductions in CETA have been proposed by the Reagan administration and that these reductions appear likely to be implemented, it may be safe to assume that total city employment in

California will continue the decline begun in 1978-79, the first post-Proposition 13 fiscal year. A decline in total employment in the range of 4 to 5 percent can be expected over the next few years assuming cities are unable to tap sufficient additional revenue sources to replace lost CETA funding.

D) Trends in City Capital Spending

Total Capital Spending

The State Controller does not collect data on city general fund capital facility expenditures, consequently, we have relied on data from our city finance survey for our review of capital spending trends. The data only covers city general fund supported capital spending and does not cover capital spending by municipal enterprises such as water or power utilities, airports, or transit systems.

Based on replies to our survey from 85 cities, total capital spending increased by 14.2 percent between 1977-78 and 1979-80. The 85 cities responding spent $372.7 million on general fund supported capital facilities in 1977-78 and $425.8 million in 1979-80. Table II-21, Percentage Changes in City Capital Spending 1977-78 to 1979-80, displays the general fund capital spending growth rates for each group of cities.

Table II-21

Percentage Changes in City Capital Spending, 1977-78 to 1979-80

Population Size Group	Growth of Capital Spending 1977-78 to 1979-80
Under 10,000	21.4%
10,000 - 19,999	-16.4
20,000 - 49,999	6.0
50,000 - 99,999	26.2
100,000 - 299,999	12.6
Over 300,000	11.0
Total Sample	14.2%

N = 85
(Source: A.O.R. City Finance Survey)

While our survey data are more heavily weighted toward cities with populations of more than 50,000, the responses show that cities of all sizes (except the 10,000 to 20,000 group) managed to increase capital spending over the 1977-78 levels. In the wake of Proposition 13 there was speculation that capital spending budgets would be drastically reduced in order to fund current operations. Our data indicate that cities have maintained the level of capital spending at or slightly above the 1977-78 level. Capital spending was 11.3 percent of total city spending in 1977-78 among cities in our sample. In 1979-80 capital spending had risen slightly to 11.9 percent of total city spending in our sample.

The apparent increase in capital spending shrinks if we make adjustment for rising construction costs. The Engineering News-Record Construction Cost Index estimates inflation during the 1977-78 to 1979-80 period at 17.2 percent. If we adjust our 1979-80 figures to reflect the impact of inflation we find that capital spending in our

sample was $363.3 million in constant 1977-78 dollars. This represents a 2.5 percent decline in real construction dollars over the study period.

It is not clear from our data whether cities will be able to maintain capital spending at current levels in future years. Since we sampled such a brief time period (three fiscal years) we have no way to know whether capital spending in the study period was comparable with spending in earlier years. It is also possible that capital spending measured by our survey represents the completion of projects planned or underway prior to Proposition 13. If that is the case it is possible that future years will see a sharp decline in capital spending as old projects are completed and new projects are not started.

Another factor to consider when examining city capital spending involves the future of federal grants to cities. Substantial amounts of municipal capital projects are funded by Environmental Protection Agency Grants (waste water treatment plants), Community Development Block Grants (CDBG), and Urban Development Action Grants (UDAG). All of these programs along with many other federal urban programs may be greatly reduced in size as part of the Reagan administration's proposed federal budget reductions. Such cutbacks could impact future municipal capital spending.

Adequacy of City Capital Spending Levels

No effort was made in our written survey to assess the adequacy of the level of municipal capital spending. We do not believe any conclusions can be drawn from our written survey data concerning this

question. However, the subject of municipal capital spending was discussed in our field interviews with city staff. Those results are discussed in Chapter V.

Distribution of City Capital Spending

Table II-22, Distribution of City Capital Expenditures (Non-Enterprise) By Function, 1977-78 to 1979-80, presents information on how cities divided their non-enterprise fund capital spending among major city functions.

Table II-22

Distribution of City Capital Expenditures
(Non-Enterprise) By Function 1977-78 to 1979-80

Function	Percent of Total Capital Budget 1977-78	1979-80
General Government	5.3%	5.1%
Police	2.4	3.1
Fire	3.0	3.1
Solid Waste	0.6	0.5
Liquid Waste	11.2	8.6
Streets and Other Public Works	44.4	44.4
Parks	17.3	18.4
Libraries	1.0	1.2
Community Development	10.1	7.6
Other Programs	4.5	5.9
Total	100.0%	100.0%

As the table illustrates, street and park programs are the largest portion of city capital budgets, consuming 62.8 percent of capital spending reported in our survey. The next largest category was the liquid waste function (8.6 percent in 1979-80). Because our survey did not examine city enterprise fund capital spending, the proportion of spending shown above for the sewer function is probably understated if enterprise funding is considered.

Capital spending for enterprise activities (water, sewer and power utilities, airports, transit systems) have been financed in recent years through use of revenue bonds (funded by user charges), federal grants (i.e., sewers, transit), and revenues generated from user charges. Local tax support of these activities has not been a large factor and as a result, we have not examined these areas of capital spending.

E) Changes in the Levels of Selected Municipal Services 1977-78 to 1979-80

Introduction

This portion of the report reviews the changes that have occurred in selected municipal services during the study period. The findings discussed below are based on 98 replies to our city finance survey. The cities responding to the survey represent a cross section of California cities and reflect the diverse nature of municipal activities in the state. Our survey sought quantitative data concerning selected services, which may only reflect one dimension of municipal service level changes in the post-Proposition 13 era. Table II-23, Municipal Service Level Indicators Reviewed, lists the quantitative service level indicators included in our city finance survey. Readers interested in reviewing a sampling of city comments about service level changes are directed to Appendix V.

There is no standardized system used by cities to collect information about the demand for and the level of service provided among the municipal services we examined. Our survey provided a framework for recording such data which was designed after extensive consultation with city officials. Many city officials responding to our survey, however,

noted that their record keeping systems differed to some degree from the framework used in our survey. As a result, the reader should consider the findings discussed below as illustrative of general trends rather than as precise measures of changes in municipal services.

Table II-23

Municipal Service Level Indicators Reviewed

Fire Programs

- Total Fire Calls for Assistance
- Total Fire Department Staffing
- Fire Staff Per 10,000 Population
- Fire Response Time
- Paramedic Response Time
- Fire Crew Manning Per Pumper
- Number of Fire Inspections

Police Programs

- Total Police Calls for Assistance
- Sworn Police Staff
- Civilian Police Staff
- Total Sworn and Civilian Police Staff
- Police Officers Per 10,000 Population
- Police Response Time

Streets

- Lane Miles in Street System
- Streets (Lane Miles) Repaved
- Streets (Lane Miles) Maintained
- Street Maintenance Cycle
- Street Sweeping on Arterial, Residential, and Business Streets

Parks and Recreation

- Recreation Staff
- Acres of Parkland Maintenance Per Employee

Libraries

- Library Service Hours
- Book Expenditures
- Non-Book Expenditures
- Library Branches
- Bookmobile Stops

Police Protection

The current level of police services, in cities responding to our survey, has generally remained constant during our survey period. While the demand for police services, as measured by the total number of calls for assistance, is up substantially (7.3%), police response time has generally remained relatively constant. This finding confirms the trends discussed in our review of municipal spending, in which we found that cities spared police (and fire) services from the bulk of the post-Proposition 13 budget cuts. In the future, however, it may be difficult for cities to maintain current levels of response time. Our study found a slight but widespread decline in the number of sworn police officers per 10,000 city residents. It appears that police department budgets have generally kept pace with inflation but staffing has not kept pace with the increase in population. While improvements in police productivity can bridge some of this gap, over the long run such a trend could lead to a drop in the general level of police protection. The following paragraphs review the data we collected on police services.

The total number of calls for police assistance rose by 7.3 percent in the 73 cities which responded to our survey in this area. Table II-24, Calls for Police Assistance, summarizes our findings.

Table II-24

Calls for Police Assistance

Fiscal Year	Total Police Calls	Percent Change
1977-78	5,543,994	--
1978-79	5,791,991	4.5
1979-80	5,947,880	2.7
1977-78 to 1979-80		7.3

Number of cities responding - 73
Percent of cities with an increase in calls - 79%

A substantial majority of cities in all population size groups in our sample reported increases in the total number of police calls received over the study period. Among the largest cities, San Diego and San Jose reported particularly large increases in the number of calls received. Cities with populations under 50,000 reported increases in nearly every case. Of the 27 such cities responding, 24 (89%) reported increases in the total number of police calls received.

Police response time showed no significant change during the study period. From the 68 cities that responded to this question, response time averaged 4.4 minutes in 1977-78 and 4.6 minutes in 1979-80. This finding must be qualified, however, by the fact that four of the five largest cities in our survey (Long Beach, Los Angeles, Oakland and San Diego) were not able to provide data on this key service level indicator for all three years. Since these cities serve a substantial portion of California's urban populations our findings in this area remain incomplete. Table II-25, Changes in Police Response Time 1977-78 to 1979-80, summarizes the data we collected in this area.

Table II-25

Changes in Police Response Time 1977-78 to 1979-80

Number of Cities Responding

Population Size Group	Slower Response Time	Unchanged Response Time	Faster Response Time	TOTAL
0-10,000	3	6	1	10
10,000-20,000	3	3	0	6
20,000-50,000	2	10	2	14
50,000-100,000	9	14	5	28
100,000-300,000	4	4	1	9
300,000 +	0	0	1	1
TOTAL	21 (31%)	37 (54%)	10 (15%)	68 (100%)

The response times reported by our survey cities varied greatly, ranging from 1.0 minutes in Huntington Beach in both 1977-78 and 1979-80 to 19.0 minutes in 1979-80 in Riverside. The cities of Bakersfield and Riverside reported the sharpest increases in response time during the study period. Riverside's response time slowed 58 percent during this period increasing from 12.0 minutes in 1977-78 to 19.0 minutes in 1979-80. Bakersfield showed a 24 percent increase, rising from 14.2 minutes in 1977-78 to 17.7 minutes in 1979-80. These two cities' response times were substantially longer than any other reported in our survey.

Many city officials we interviewed indicated that police departments have striven to hold response time constant. This is seen to be a key service level indicator for police service. Many other areas of police activity such as preventative patrol, record keeping, community relations, and special projects have been cut back in order to concentrate limited police resources on maintaining response. We were, however, unable to quantify the impacts of reductions in these areas.

During the study period the total number of budgeted positions for sworn police officers declined by 0.7 percent, falling from 18,065 to 17,932 in the 88 survey cities responding to this question. This decline is accounted for, however, by the City of Los Angeles which reported a decline of 308 budgeted positions. If we had excluded Los Angeles, the total would have increased 0.7 percent, rising from 10,654 to 10,729. As discussed earlier, the decline reported by Los Angeles does not reflect a reduction in the actual number of police officers on duty. Of the five largest cities in our survey, only Oakland showed a serious decline, an 8.0 percent drop in the number of sworn officers. Table II-26, Changes in Sworn Police Staff 1977-78 to 1979-80 by Population Size Group, shows the distribution of changes among cities of different size.

Table II-26

Changes in Sworn Police Staff
1977-78 to 1979-80 by Population Size Group

Number of Cities Responding

Population Size Group	Decrease in Sworn Police	Constant Sworn Police	Increase in Sworn Police	Total Number of Sample Cities Reporting
0-10,000	3	6	4	13
10,000-20,000	3	4	1	8
20,000-50,000	2	4	8	14
50,000-100,000	8	4	23	35
100,000-300,000	3	1	9	15
300,000 +	2	1	2	5
TOTAL	21 (24%)	20 (23%)	47 (53%)	88

As shown by Table II-26, most survey cities responding reported increases in sworn police staff over the study period.

Of the largest cities, San Diego (6.7%) and San Jose (3.8%) reported increases over the study period while Los Angeles (-4.2%) and Oakland (-8.0%) reported decreases. Long Beach remained constant.

In general the data indicates that sworn police staff increased slightly during the 1977-78 to 1979-80 period.

During the study period the total number of civilian (nonsworn) police staff for the 88 cities in our sample responding to this question decreased by 2.1 percent, falling from 6,877 to 6,735. If we exclude the City of Los Angeles, (which reported a decrease of 276, the total number of civilian employees would have increased by 3.4 percent, rising from 3,992 to 4,126. Table II-27, Changes in Civilian Police Staff 1977-78 to 1979-80 by Population Size Group, displays information about how cities of different sizes responded to this question.

Table II-27

Changes in Civilian Police Staff
1977-78 to 1979-80 by Population Size Group

Number of Cities Responding

Population Size Group	Decrease in Civilian Police Staff	Constant Civilian Police Staff	Increase in Civilian Police Staff	Total Number of Sample Cities Reporting
0-10,000	4	5	4	13
10,000-20,000	2	3	3	8
20,000-50,000	0	6	8	14
50,000-100,000	6	5	24	35
100,000-300,000	4	1	8	13
300,000 +	3	0	2	5
TOTAL	19 (22%)	20 (25%)	49 (55%)	88 (100%)

Most cities maintained or increased the total number of civilian police employees. Among the five largest cities in our sample, two

reported increases (Oakland 4.4%, and San Jose 14.1%) while three reported substantial decreases (Long Beach -13.7%, Los Angeles -9.6%, and San Diego -7.0%).

Finally, our data indicate that in the future cities may not be able to continue to provide the same level of police protection currently enjoyed by residents. The number of sworn police officers per 10,000 residents has declined 7.2 percent between 1977-78 and 1979-80, dropping from 16.68 per 10,000 to 15.47 per 10,000 in our sample cities. Table II-28, Changes in Sworn Police Officer per 10,000 1977-78 to 1979-80 by Population Size Group, indicates that this decline was experienced in cities of all sizes. The decline was most pronounced in rapidly growing small communities.

Table II-28

Changes in Sworn Police Officer per 10,000
1977-78 to 1979-80 by Population Size Group

Population Size Group	Number of Cities Responding: Decreased Police Per 10,000	Constant Police Per 10,000	Increased Police Per 10,000	Total Number of Sample Cities Reporting
0-10,000	8	0	2	10
10,000-20,000	5	1	2	8
20,000-50,000	10	0	4	14
50,000-100,000	19	3	13	35
100,000-300,000	10	1	2	13
300,000 +	3	1	1	5
TOTAL	55 (65%)	7 (8%)	23 (27%)	85 (100%)

Of the five largest cities in our sample, Los Angeles (-5.2 percent), Long Beach (-1.1 percent), and Oakland (-6.7 percent), reported a decrease in police officers per 10,000, San Diego (2.8 percent) reported an increase and San Jose reported no change over the study period.

Fire Protection

The current level of fire protection services, reported by the cities responding to our survey remained constant during the study period. While the demand for fire department services, as measured by the total number of calls for assistance, is up substantially (10.2%), fire department response times have remained constant or improved in 87 percent of the 64 cities responding to our survey questions. As was the case with police services, cities indicated that every effort was made to protect fire services from the budgetary problems that cities have faced in the last several years. The only indicator of a decline in the level of fire protection services was in the ratio of fire department staff per 10,000 residents. As was also the case with police services, fire department budgets seem to have generally kept pace with inflation but staffing has not expanded in step with population growth. Some city officials we interviewed say that improved fire department productivity and new building fire safety standards may bridge this gap. Nonetheless, it is possible that a falling ratio of staff to population may adversely impact fire service in the future. The following paragraphs summarize the data we collected in this area.

Our survey included fire department data for cities that maintain their own fire departments. Cities served by special districts did not

provide data. It is possible that major changes in fire protection services have occurred in such areas due to the fact that such districts were almost wholly dependent on the property tax.

The total number of public calls for fire department assistance rose by 10.2 percent in the 68 cities responding to our survey questions. Table II-29, Calls for Fire Department Assistance, summarizes this information.

Table II-29

Calls for Fire Department Assistance

Fiscal Year	Total Calls	Percent Change
1977-78	506,302	--
1978-79	544,972	7.6%
1979-80	557,962	2.4
1977-78 to 1979-80		10.2

Number of cities responding - 68
Percent of cities with an increase in calls - 70.5%

A substantial majority of cities in every population size group reported an increase in the number of calls for assistance. Of the four largest cities responding to the survey, three showed large increases in the number of calls (Los Angeles, San Diego, and San Jose) while one showed a decline (Oakland).

Of the 64 cities responding to our question concerning fire department response time, 87 percent (56 cities) reported that response times had remained constant (72%) or improved (15%) during the study period. Reported response time averaged 3.85 minutes in both 1977-78 and 1979-80. There was no significant difference between the average

response times of fire departments of cities in the six size groups we studied. In all three years response times ranged from a minimum of 2 minutes to a maximum of no more than 6.5 minutes. Table II-30, Changes in Fire Response Time 1977-78 to 1979-80 by Population Size Group, shows how cities of different sizes responded to this question.

Table II-30

Changes in Fire Response Time
1977-78 to 1979-80 by Population Size Groups

Number of Cities Responding

Population Size Group	Longer Response Time	Constant Response Time	Faster Response Time	Total Number of Sample Cities Reporting
0-10,000	1	6	0	7
10,000-20,000	1	2	1	4
20,000-50,000	2	7	2	11
50,000-100,000	2	22	3	27
100,000-300,000	0	7	3	10
300,000 +	2	2	1	5
TOTAL	8 (13%)	46 (72%)	10 (15%)	64 (100%)

Of the five largest cities, Los Angeles and San Jose reported slower response times in 1979-80 as compared to 1977-78. San Jose slipped from 4.1 to 5.0 minutes while Los Angeles went from 2.0 to 2.2 minutes. Even after it slipped, Los Angeles had one of the very best fire department response times of any city in California. Of the three remaining large cities, San Diego reported a faster response time while Oakland and Long Beach reported no change.

Total fire department staffing, as measured by the number of budgeted positions, remained relatively constant during the study period. The 72 cities responding to this question reported that total department staffing declined by 0.7 percent. Table II-31, Total Fire Department Staffing 1977-78 to 1979-80, illustrates this point.

Table II-31

Total Fire Department Staffing
1977-78 to 1979-80

Fiscal Year	Total Fire Staff	Year to Year Change (%)
1977-78	11,848	--
1978-79	11,475	-3.2
1979-80	11,767	+2.5
1977-78 to 1979-80		-0.7%

Number of cities responding - 72
Percent of cities reporting a decrease in fire staff - 28%

In our sample, 72 percent of the cities responding (52 cities) indicated that total fire staff remained constant or increased. Among the five largest cities, only Los Angeles reported a decrease in total fire staff (-8.1% or 358 positions). Long Beach reported a constant staffing level while San Jose (+7.8%), San Diego (+7.8%) and Oakland (+15.8%) reported significant increases. Oakland's increase in fire staff is in striking contrast to its reduction in police staff discussed above. The largest decreases in fire department staffing were reported by the Cities of Covina (-16.3%) and Richmond (-18.1%). Table II-32, Changes in Total Fire Department Staffing 1977-78 to 1979-80 by Population Size Group, shows how cities of different sizes responded to this question.

Table II-32

Changes in Total Fire Department Staffing
1977-78 to 1979-80 by Population Size Group

Number of Cities Responding

Population Size Group	Decreased Fire Staff	Constant Fire Staff	Increased Fire Staff	Total Number of Sample Cities Reporting
0-10,000	1	3	2	6
10,000-20,000	4	3	0	7
20,000-50,000	1	6	5	12
50,000-100,000	12	9	10	31
100,000-300,000	1	4	6	11
300,000 +	1	1	3	5
TOTAL	20 (28%)	26 (36%)	26 (36%)	72 (100%)

A direct consequence of the general stability in the total number of fire department staff in our survey cities was a decline in the ratio of staff to population, since population was growing during the study period. For the 72 cities responding to this question, the average number of fire department staff per 10,000 residents dropped from 17.1 in 1977-78 to 16.0 in 1979-80. This pattern held true in cities in all population size groups. Overall, 69 percent of the cities responding (48 cities) reported declines, 9 percent (6 cities) reported a stable number and 23 percent (16 cities) reported an improved number per 10,000 residents. Among the five largest cities in our sample, Los Angeles (-9.0%) and Long Beach (-1.0%) reported lower staffing, while San Diego

(+3.4%), San Jose (+3.8%) and Oakland (+17.4%) reported improved staffing per 10,000 population. In general, however, our data indicate that fire department staffing has not kept pace with population growth. Table II-33, Change in Fire Staff Per 10,000 Population, 1977-78 to 1979-80, indicates how cities in the different size groups responded to this question.

Table II-33

Change in Fire Staff Per 10,000 Population, 1977-78 to 1979-80

Population Size Group	Number of Cities Responding: Decrease in Fire Staff Per 10,000	Constant Fire Staff Per 10,000	Increase in Fire Staff Per 10,000	Total Number of Sample Cities Reporting
0-10,000	3	1	1	5
10,000-20,000	4	2	0	6
20,000-50,000	7	0	5	12
50,000-100,000	23	3	4	30
100,000-300,000	9	0	3	12
300,000 +	2	0	3	5
TOTAL	48 (68%)	6 (9%)	16 (23%)	70 (100%)

We also surveyed paramedic (first aid) response time and the number of fire inspections conducted. Of 57 cities responding to the question concerning paramedic response time, 88 percent (50 cities) reported constant or improved response time while only 12 percent (7 cities) reported a decline. This pattern held true among cities of the various population size groups. Approximately 65 percent (44 cities) of the 68

cities responding indicated that they had maintained or increased the number of fire inspections made during the 1979-80 fiscal year as compared to 1977-78. This result is of interest since some observers feared that fire inspections might have been reduced as a relatively "invisible" way to cope with budget difficulties. All five of the largest cities in our sample reported increases in the number of fire inspections they conducted. The only noteworthy declines were reported by the medium-sized cities of Modesto, Stockton, and Sacramento.

Street Programs

City street programs suffered major setbacks during the study period. While the total number of lane miles in the 75 cities responding increased 3.1 percent, rising from 56,336 miles to 58,084, cities reported an overall decrease of 6.7 percent in the number of lane miles of streets repaved or treated with a major maintenance procedure. This data is summarized below.

Table II-34

Summary Data on Street Programs
1977-78 to 1979-80

Fiscal Year	Lane Miles in Street System	% Change	Lane Miles Repaved	% Change	Lane[a] Miles Treated	% Change	Total Miles Subject to Maintenance	% Change
1977-78	56,336	--	906	--	1,670	--	2,576	--
1978-79	57,287	+1.7%	825	-8.9%	1,291	-22.7%	2,116	-17.9%
1979-80	58,084	+1.4	883	+7.0	1,521	+17.8	2,404	+13.6
1977-78 to 1979-80		+3.1%		-2.5%		-8.9%		-6.7%

Number of cities reporting - 75

[a]Lane miles subject to slurry seal, chip seal, or similar maintenance procedure.

Of the 75 cities responding 48 percent (36 cities) were able to increase the percentage of their street system that was repaved or maintained each year, 7 percent (5 cities) repaved or maintained a constant percentage of their street system and 45 percent (34 cities) were forced to reduce the percentage of their street system that was subject to maintenance or repaving during the 1979-80 year as compared to 1977-78. The dimensions of this problem have become more apparent when it is realized that a majority of the cities with populations over 50,000 in our sample were forced to reduce street programs during the study period. Table II-35, Cities Reporting Change in Percentage of Total Street System Subject to Repaving or Maintenance 1977-78 to 1979-80, illustrates this point.

Table II-35

Cities Reporting Change in Percentage of Total Street System Subject to Repaving or Maintenance 1977-78 to 1979-80

Population Size Group	Number of Cities Responding: Decrease	Constant	Increase	Total Number of Sample Cities Reporting
0-10,000	1	1	7	9
10,000-20,000	2	1	4	7
20,000-50,000	6	1	8	15
50,000-100,000	15	1	12	28
100,000-300,000	7	0	5	12
300,000 +	3	1	0	4
TOTAL	34 (45%)	5 (7%)	36 (48%)	75 (100%)

Several of the increases reported by the smallest group of cities represented increases due to the reinstatement of street maintenance programs that had been eliminated in 1977-78. Among the four largest cities reporting, only San Jose reported a constant level of street maintenance and repaving activity while Los Angeles, Oakland, and San Diego reported decreases. The decline in Oakland was particularly striking, with the city reporting a street maintenance cycle (time required to replace or resurface the entire street system) of 98 years in 1979-80, up from approximately 25 years in 1977-78. Los Angeles had a similar deterioration in its street maintenance cycle, where the reported data showed increase from 55.5 years in 1977-78 to 84.7 years in 1979-80. Since most urban streets have an estimated lifetime of between 25 and 40 years these two cities clearly have very inadequate street maintenance programs. These cities are consuming a substantial portion of their capital stock each year. Los Angeles reported over $600 million in currentl identified street and road maintenance needs.

Readers should note that the data presented above merely deal with changes in the relative levels of street maintenance activity in 1977-78 and 1979-80. We made no effort to assess whether either level was in any way adequate from an engineering perspective. Many cities we interviewed indicated that street programs were already seriously inadequate prior to 1977-78. The major cause for this was the slow growth in state gas tax revenues earmarked for city and county street programs. Even before Proposition 13 cities were putting substantial amounts of general fund monies into their street programs. Even with these additional funds, cities were not able to keep up with maintenance needs in light of the rapid inflation in maintenance costs due to general inflation and rising energy costs.

In general, though many city officials expressed dissatisfaction with the practice, cities view street maintenance programs as a more or less "invisible" place to cut spending in order to cope with fiscal problems. At least in the short run, they felt that the public is less likely to complain about cuts in this area than in any other area except general government overhead costs.

Library Programs

Library programs were subject to the sharpest reductions in service levels reported by cities responding to our survey. The reductions in service level indicators reported here confirm the budget reductions for libraries discussed earlier in this report. Two service level indicators, library public service hours and inflation adjusted book expenditures, will illustrate this conclusion.

Over 71 percent (30 cities) of the 42 cities that responded to this question reported a decline in the number of hours per week that the central library and its branches were open to the public. Only 10 percent (4 cities) reported an increase in public service hours while 19 percent (8 cities) were able to hold public service hours constant. This pattern held true for cities of all sizes in our sample. The total number of public service hours in all our 42 sample cities fell by 14.7 percent between 1977-78 and 1979-80, dropping from 13,588 to 11,593 hours per week. This represents a substantial reduction in public services from city libraries. This reduction in public service hours was accomplished primarily by reducing hours at all branch and central libraries rather than by closing branches. Only 6 cities (15%) reported closing library units while 30 cities (77%) maintained the same number of library units and 3 cities (8%) reported increases.

Book purchases are a key input of public libraries. Measured in current dollars, spending for book purchases rose from $9.1 million to $9.3 million (+2.1%) between 1977-78 and 1979-80 in the 42 cities we surveyed. However, if we adjust the 1979-80 figure to account for book cost inflation, as measured by consumer price index book price component, we see that book spending fell from $9.1 million in 1977-78 to $7.7 million in 1979-80, a decline of 15.4 percent. This pattern of severe decline held true in cities in every population size group. Over 79 percent (33 cities) of the 42 cities responding reported a decline in their inflation adjusted spending on books. Only 9 cities (21%) were able to increase inflation adjusted book spending.

Many cities that did not respond to this question were served by county libraries or library districts. Service level declines in these cities were not recorded in our survey since the survey was completed by city staff. It is likely that library districts were similarly impacted since they were heavily dependent on property tax revenue prior to Proposition 13 and have suffered serious reductions in funding since.

Park and Recreation Programs

Park and recreation programs were also subject to large reductions during the study period. Most city officials we contacted during our field interviews indicated that park and recreation programs were a low priority city activity. We reviewed two service level indicators in this area, total recreation program staff and the number of acres of park land served by each maintenance employee. Both indicators showed substantial declines in service.

Total recreation program staff declined by 15.6 percent between 1977-78 in the 75 cities responding to this question, dropping from 4,124 in 1977-78 to 3,481 in 1979-80. In our sample, 48 cities (59%) reported reductions in recreation staff while 15 cities (19%) reported a constant level of staffing and 18 cities (22%) reported increases. The reductions were heavily concentrated in the cities with populations over 50,000, as 71 percent of those cities (36 of 51) reported reductions in staff. Of the largest cities responding, three reported decreases in staff (Los Angeles -22.8%; Oakland -41.7% and San Diego -13.8%) and one reported an increase in recreation staff (San Jose +25.4%).

Several officials we interviewed in the larger cities argued that reductions in recreation programs may not be cost effective in the long run. Reducing the constructive recreation alternatives of many urban youth may result in increased delinquency which will stimulate more expensive police activities. These officials argued that an ounce of prevention (recreation staff) is worth more than a pound of cure (police officers).

Over 70 percent (53 cities) of the 75 cities in our sample reported increases over the study period in the number of acres of park land maintained by each maintenance worker. Only 11 cities (15%) were able to reduce the number of acres per worker and the remaining 11 cities (15%) were able to hold the number of acres per worker constant. This pattern held true for all population size groups in our survey, with the cities with populations over 100,000 being most likely to reduce recreation staff (13 of 16 such cities reduced staff). All five of the largest cities in our sample reported increases in the number of acres

of park land maintained by each employee (Los Angeles +70%; Long Beach +5.9%; San Diego +23.4%; Oakland +37% and San Jose +26%). If we remove four cities that reported unusually large acreages per employee in 1977-78 (Long Beach (42), Marysville (90), Ventura (245), and San Marino (58)) from our sample we find that the average maintenance worker was responsible for 7.6 acres of park land in 1977-78 and 9.1 acres in 1979-80, an increase of 19.7 percent. This represents a substantial increase in workload per employee and may result in a lower level of maintenance unless the productivity of each worker can be raised proportionately. Such an increase would require some increase in the equipment provided each worker. Cities we contacted indicated that in general they could not afford to make large investments in improving worker productivity. As a result, park maintenance levels have generally been reduced. Further reductions in the federally funded CETA program are likely to result in a further reduction in park maintenance since many CETA workers are employed in these activities.

CHAPTER III

Changes in County Fiscal Conditions 1977-78 to 1979-80

A) County Revenue Trends 1977-78 to 1979-80

Total Revenues

Table III-1, Total County Revenues 1977-78 and 1979-80, indicates that total county revenues have grown by 9.5 percent over the study period after adjustments are made to reflect the value to counties of the state assumption of all non-federal funding for the Medi-Cal and SSI/SSP programs. If a further adjustment is made to exclude all hospital net operating revenues, the growth in county revenues slips to 8.2 percent.

Table III-1

Total County Revenues 1977-78 and 1979-80

(in millions)

	1977-78	1979-80	Growth (%)
Total Gross Revenues[a] (including hospital net revenues)	$9,261	$9,511	2.7%
Value of State Health and Welfare Buy-outs Not Reflected in Total Gross Revenues[b]			
County Medi-Cal Contribution	410	--	
County SSI/SSP Contribution	166	--	
Adjusted Total Gross Revenues	$8,685	$9,511	9.5%
Adjusted Total (excluding hospital operating revenues)	$8,004	$8,664	8.2%

Source: Annual Report of Financial Transactions Concerning Counties of California, 1977-78 and 1979-80. State Controller.

[a]Total county revenues were adjusted by including total operating revenues reported by hospital enterprises reported in Table 10B of the annual report filed with the Controller.

[b]Amounts shown based on 1977-78 local shares as reported by the Controller, increased by assessed value growth 1977-78 to 1979-80.

Table III-2, Growth of Adjusted Total Gross Revenues for California Counties 1977-78 to 1979-80, shows the growth rate of total revenues for counties in each of the five population size groups used in our study. As the table indicates, the five largest counties (Alameda, Los Angeles, Orange, San Diego, and Santa Clara) had a significantly lower growth rate in adjusted total gross revenues than the statewide average. This difference is due to the fact that Los Angeles and Alameda counties had high pre-Proposition 13 tax rates and were more property tax dependent than other counties. As a result of Proposition 13's sharp reduction in tax rates, these counties suffered a much larger drop in total property tax revenues (-42 percent vs. -29 to -36 percent reductions in all other counties) than did the other 53 counties. As a result, these five counties have had slower revenue growth even after adjustments are made for state "bail-out" aid.

Table III-2

Growth of Adjusted Total Gross Revenues
for California Counties 1977-78 to 1979-80

Population Size Group	Number of Counties	Total Population (in millions)	% of Total Population	Growth In (%) Adjusted Total Gross Revenues
Under 100,000	28	.999	(4.2)	14.9%
100,000 - 199,999	8	1.073	(4.6)	12.1
200,000 - 499,999	9	2.578	(11.0)	13.1
500,000 - 999,999	8	5.262	(22.4)	13.2
1,000,000 and Over	5	13.619	(57.8)	7.3
Total	58	23.533	(100)	9.5%

	Changes in Selected Revenue Sources 1977-78 to 1979-80 (%)			
Population Size Group	Property Tax	Sales and Other Local Taxes	All Revenues From Other Goverments	All User Charges (inc. hospital)
Under 100,000	-29.5%	57.9%	13.4%	28.8%
100,000 - 199,999	-36.5	44.9	17.3	2.9
200,000 - 499,999	-35.5	47.5	17.6	19.8
500,000 - 999,999	-36.4	31.5	23.4	9.2
1,000,000 and over	-42.0	26.5	12.9	38.5
Average, all counties	-39.2%	34.8%	15.9%	26.7%

Source: Annual Report of Financial Transactions concerning counties of California, 1977-78 and 1979-80. State Controller.

Growth Rates of Individual Revenue Sources

Table III-3, Percentage Changes in Major County Revenue Sources 1977-78 to 1979-80, displays the growth rates of the major county revenues during the study period.

Table III-3

Percentage Changes in Major County Revenue Sources 1977-78 to 1979-80

(excludes state assumption of Medi-Cal and SSI/SSP)

	Growth 1977-78 to 1979-80 (%)
Property Tax[a]	-40.3%
Sales Tax	32.8
Other Local Taxes	66.4
Licenses and Permits	15.2
Fines	25.5
Use of Money and Property	112.1
State Shared Revenues[b]	16.1
Federal Revenue Sharing	-0-
Federal and State Grants	24.3
Hospital User Charges	24.4
Other User Charges and Fees	30.9
Other Revenues	56.1
Total Revenues (excluding state assumption of Medi-Cal and SSI/SSP)	2.7%

[a]The property tax category includes all property taxes, including those shifted from schools under AB 8 of 1979, state subventions for homeowner and business inventory relief.

[b]Includes vehicle license fees, alcoholic beverage licenses, cigarette taxes, trailer coach fees, and gas tax revenues.

As Table III-3 indicates, property tax revenues (including state property tax relief subventions) fell by over 40 percent during the 1977-78 to 1979-80 period. Given counties substantial dependence on the property tax prior to Proposition 13, the large decline in property tax

revenue was chiefly responsible for holding total county revenue growth to 2.7 percent. The table indicates healthy growth rates in sales tax revenues (32.8 percent), other local taxes (66.4 percent), other non-hospital user fees and charges (30.9 percent), and revenues from the use of money and property (112.1 percent). The sharp increase in revenue from the use of money and property was due to the record high interest rates applicable to reserves and other temporarily idle cash balances. Most of these interest earnings are restricted in use and must be applied to the same purposes as are the fund balances that generated the interest. Examples include gas tax funds, federal program grants, and federal and state construction grants.

Table III-4, Individual Revenue Sources as a Percentage of Total County Revenues for 1977-78 and 1979-80, gives a picture of the relative importance of individual county revenue sources. The property tax has

Table III-4

Individual Revenue Sources as a Percentage of Total County Revenues for 1977-78 and 1979-80

	Percent of Total Revenues	
	1977-78	1979-80
Property Taxes[a]	36.3%	21.1%
Federal and State Grants	34.9	42.3
Hospital User Charges	7.4	8.8
Other User Charges	4.2	5.4
State Shared Revenues	5.3	6.0
Federal Revenue Sharing	3.4	3.4
Sales Tax	2.1	2.7
Other Local Taxes	1.6	2.6
Licenses and Permits	.9	1.0
Fines	1.0	1.2
Use of Money and Property	1.9	3.9
Other Revenues	1.0%	1.6%

[a]The property tax category includes all property taxes, including those shifted from schools under AB 8 of 1979, state subventions for homeowners and business inventory relief.

given up its role as the most important county revenue source and has been replaced by federal and state grants which by 1979-80 were more than twice the size of the local property tax. The dramatic increase in the role of federal and state grants is a function of the sharp decline in property tax revenues and the state's assumption of part of the county's historic role in financing the AFDC program and the county's share of local health programs. Sales taxes and other local taxes play a very minor role in county finances, constituting only 5.3 percent of total county revenues in 1979-80. This is in direct contrast to the role these taxes play in city finance where these taxes constitute over 31 percent of city revenues. User fees and charges, exclusive of revenues generated by county hospitals, accounted for only 5.4 percent of total county revenues in 1979-80.

While Table III-4 does not show it, the amount of federal revenue sharing money flowing to counties will decline significantly beginning with the 1980-81 fiscal year. Statewide, California counties will receive approximately $72 million less in revenue sharing money during the 1980-81 federal fiscal year than in the prior federal fiscal years. California cities will receive approximately $34 million less than the prior year. The cause of both the reduction in total revenue sharing funds and the shift of funding between cities and counties is the reduction in "tax effort" caused by Proposition 13. Since counties relied on the property tax far more than did cities prior to Proposition 13, their "local tax effort" factor in the revenue sharing formula showed a larger reduction than did cities. Additionally, the state assumption of county health and welfare costs (instead of giving counties a larger share of

the post-Proposition 13 property tax) also reduced county tax effort. These factors led to the shift of revenue sharing money from counties to cities. The reduction in the total amount of revenue sharing was due to the property tax reductions lowering California's tax effort relative to that of other states.

Table III-5, Tax and Non-Tax Revenue Support of County Budgets, 1977-78 and 1979-80, indicates that almost four-fifths of total county revenues come from local taxes or the proceeds of federal and state taxes. Only slightly more than one-fifth of county revenues comes from hospital charges, other user charges, licenses, fines, permits and other revenues. If hospital charges are excluded, only slightly more than 10 percent of total county revenues come from non-tax revenue sources. While these non-tax sources have increased their role in financing county operations, they still play a minor role in financing county services.

Table III-5

Tax and Non-Tax Revenue Support of County Budgets 1977-78 and 1979-80

	Percent of Total Revenues 1977-78	1979-80
Tax Based Revenues		
Property, Sales, and Local Taxes	40.0%	26.4%
State Shared Revenues	5.3	6.0
Federal Revenue Sharing	3.4	3.4
Federal and State Grants	34.9	42.3
Subtotal	(83.6)%	(78.1)%
Non-Tax Revenues		
Hospital Charges	7.4%	8.8%
Other User Charges	4.2	5.4
Licenses, Fines, Permits	1.9	2.2
Other Revenues	2.9	5.5
Subtotal	(16.4)%	(21.9)%

Revenue Growth Compared to Inflation and Population Change

During the 1977-78 to 1979-80 period the population of California's 58 counties (including San Francisco), as measured on January 1 of each year by the Department of Finance, grew by 4.0 percent, rising from 22.3 million to 23.2 million. During this same period the rate of inflation, as measured by the Gross National Product implicit price deflator for state and local government purchases of goods and services was 14.7 percent. As a result, total county revenues would have had to have grown by 19.3 percent over the study period to have kept pace with inflation and population change. As was noted above, the actual growth rate of adjusted total gross revenues was 10.5 percent. As a result, real revenues per capita (inflation adjusted) fell by 7.4 percent between 1977-78 and 1979-80. This represents a significant reduction in the real resources controlled by county government. This 7.4 percent decline in the inflation adjusted total revenues per capita for counties is very similar to the 8.2 percent decline reported by cities. The slight difference between the counties and cities may be attributed to differences in population growth rates and to the fact that a large portion of county revenues come from state and federal health and welfare programs which have generally kept pace with inflation and caseload growth over the study period while cities do not perform and are not reimbursed for similar state mandated functions.

If we use the California Consumer Price Index, instead of the G.N.P. implicit price deflator, the decline in real revenues per capita becomes even more pronounced. When this measure of inflation is compounded with the population change, total revenues would have had to have grown 33.0 percent during the 1977-78 to 1979-80 period to have kept pace.

County "Discretionary" Revenues

The concept of local "discretionary" revenues is useful for gaining an understanding of county budgets because nearly 60 percent of total county revenues in 1979-80 come from federal or state program grants or from user charges dedicated to the provision of a particular service such as hospital care (see Table III-5 above). The county board of supervisors have virtually no discretion over how these revenues will be spent. The remaining 40 percent of county revenues are subject, in theory, to some control by the board of supervisors since these revenues are not derived from categorical grant programs or program related service charges. It is from these funds that counties provide the resources for unreimbursed state mandated services such as health care for indigents, general relief and criminal justice systems (jails and courts), and a host of other unmandated but essential services desired by county residents (police patrol in unincorporated areas, parks, libraries, etc.).

For purposes of our study we have defined county "discretionary" revenues to include the following sources:

- Property Taxes (including subventions)
- Sales Taxes
- Local Taxes
- Federal Revenue Sharing
- Vehicle License Fees
- Revenue From the Use of Money and Property
- Fines and Penalties
- Licenses and Permits
- Trailer Coach Fees
- Miscellaneous Revenues
- Alcoholic Beverage Licenses
- Cigarette Taxes

Excluded from our definition are federal and state grants, hospital revenues, and other user fees and charges.

Table III-6, County "Discretionary" Revenues 1977-78 and 1979-80, indicates that per capita county discretionary revenues measured in constant 1977-78 dollars declined by 12.4 percent between the 1977-78 and 1979-80 fiscal years. The first line of Table III-6 shows that gross discretionary revenues declined by 17.4 percent. This decline was entirely due to the drastic reduction in property taxes effected by Proposition 13. To develop an accurate picture of county discretionary revenues it is essential, however, to adjust for the effects of Chapter 282, Statutes of 1979 (AB 8, Greene) the long-term local government finance plan. AB 8 greatly increased the state's role in financing the basic health and welfare programs as a means of providing fiscal relief to counties after Proposition 13.

Section 2 of Table III-6 shows the adjustment to county discretionary revenues needed to reflect the impact of AB 8. Each of the four items represents that portion of the program costs mandated by the state that were affected by AB 8. The reader should note, however, that these figures do not represent all county costs for mandated health and welfare programs, but only that portion altered by AB 8.

Table III-6

County "Discretionary" Revenues 1977-78 and 1979-80

(dollars in millions)

	1977-78	1979-80	Growth Rate
1. Gross Total Discretionary	4,694	3,878	-17.4
2. Adjustments for Effects of Post-Proposition 13 "Bail-Out" Legislation Altering County Shares of Health and Welfare Costs.			

Table III-6 (Continued)

	1977-78	1979-80	Growth Rate
2. (Continued)			
- Medi-Cal Contribution	-410	-0-	
- SSI/SSP Contribution	-166	-0-	
- County AFDC Costs	-322	-79	
- Unreimbursed County Health Costs Affected by AB 8	-404	-265	
3. Adjusted Total Discretionary Revenues	3,392	3,534	(4.2%)
4. Average Per Capita Discretionary Revenues	$153.52	$154.24	(0.5%)
5. Value of Per Capita Discretionary Revenues in Constant 1977-78 Dollars	$153.52	$134.47	(-12.4%)
6. Discretionary Revenues as a Percentage of Total County Revenues	36.6%	37.1%	

After making the appropriate adjustments for changes in health and welfare mandate funding, the counties' discretionary revenues, measured in current dollars, show an overall growth rate of 4.2 percent.

Sections 4 and 5 of Table III-6 show how county discretionary revenues have kept pace with changes in population and the cost-of-living. As section 5 indicates, per capita discretionary revenues measured in constant 1977-78 dollars have declined sharply, falling by 12.4 percent in the study period. This sharp decline in discretionary revenues represents a serious reduction in the resources that board of supervisors have available to deal with local needs. The 12.4 percent decline suffered by counties was even sharper than the 4.3 percent decline for city per capita discretionary revenues.

Meaning of the Decline in Discretionary Revenues

The sharp decline in county discretionary revenues shown above most heavily impacts those areas of county government that are not subject to state mandates. In addition to those mandated programs shown in Table 6, counties are subject to numerous other state mandates in the health, social services, and criminal justice areas. Since few of these other mandates have been reduced or eliminated (or funding assumed by the state) counties have had little ability to trim these programs in response to the reduction in discretionary revenues. This forces reductions in a smaller base of programs that are not mandated by the state, but are often considered quite essential by local governments. Some of these non-mandated functions include police patrol, road programs not funded by gas taxes, capital facilities, libraries, and parks.

County officials we interviewed expressed concern that this process is leading to an unbalanced local service package. Many essential local programs never became state mandates because their importance was self-evident and properly recognized by local officials. While many state mandates deal with critical (health and welfare) needs, others, which are clearly of less importance, have been "protected" from the general review of funding priorities after Proposition 13. As a result, many county officials feel that their counties are unable to provide the services required to meet local needs.

B) County Expenditure Trends 1977-78 to 1979-80

Total Expenditures

It is extremely difficult to develop a meaningful picture of the changes in total county expenditures during the 1977-78 to 1979-80 period. This difficulty stems from the major changes in state and

county financial responsibilities and funding relationships brought about by the post-Proposition 13 fiscal relief legislation (SB 154 of 1978 and AB 8 of 1979). Another confusing factor is Los Angeles County's change in the method of accounting for county hospital expenses. In 1978-79, Los Angeles County exercised its option to remove the bulk of its hospital costs and revenues from the general fund budget and account for such items as a separate county enterprise fund. Only the net county general fund subsidy to the hospital appears in the county's general fund budget. As a result, an examination of expenditure trends based on a simple comparison of the expenditures reported by the State Controller in the Annual Report of Financial Transactions Concerning California Counties, can be very misleading. In the following section we attempt to make the necessary corrections in order to present a more meaningful picture of county expenditure trends.

Table III-7, Adjusted Total County Expenditures 1977-78 and 1979-80, indicate that county expenditures, after making the adjustments noted above, grew by 12.8 percent compared to 1977-78.

Table III-7

Adjusted Total County Expenditures 1977-78 and 1979-80

($ in Millions)

	1977-78	1979-80	Change
Total Expenditures (including S.F.)	$8,792.9	$9,270.7[a]	5.4%
Adjustments for Costs No Longer Borne by County Due to State Fiscal Relief Legislation			
(County Medi-Cal Contribution)	410.4	--	
(County SSI/SSP Contribution)	165.4	--	
	$8,217.1	$9,270.7	12.8%

Population Size Group	Number of Counties	% of Total Population	Growth of Expenditures (Adjusted for State Buy-Out
Under 100,000	28	4.2%	20.8%
100,000 - 199,999	8	4.6	17.6
200,000 - 499,999	9	11.0	13.3
500,000 - 999,999	8	22.4	11.69
1,000,000 over	5	57.8	12.2
Total	58	100.0%	12.8%

[a]1979-80 figure was adjusted to reflect Los Angeles County's shift of its hospital expenditures to an enterprise fund.

Source: Data drawn from the Annual Report of Financial Transactions Concerning Counties of California, 1977-78 and 1979-80. State Controller.

The higher growth rate of adjusted expenditures for the smaller counties, displayed in Table III-7, is a function of the fact that these counties suffered a smaller proportionate property tax loss because they had lower pre-Proposition 13 tax rates than did the larger counties. As

a result, these counties had less of a reduction in total revenues and expenditures than did the larger counties. In addition, the state "buy-out" of Medi-Cal and SSI/SSP helped these counties more than the larger counties because in some cases the buy-outs exceeded the value of the property tax revenues lost due to Proposition 13. Thus, the faster growth rates displayed above are measures of the small counties' low tax "virtue" prior to Proposition 13. Low tax rates prior to the tax cut meant they suffered less than the larger counties because in general, they had less of a cutback than larger, high tax rate counties.

The 12.8 percent increase in expenditures is larger than the 9.4 percent growth in revenues discussed earlier. This discrepancy reflects two factors--1) counties spending from reserve or other one-time funds (a process mentioned by several county staff we interviewed); and 2) problems in using the reporting system developed by the State Controller, which in the past may have led local governments to under-report spending supported by federal or state grants. This latter problem, discussed earlier in this report with reference to cities (see p. 18), may artifically increase the rate of growth in expenditures shown above.

To avoid the problems discussed above, we have relied heavily on data supplied by counties responding to our fiscal survey.

Distribution of County Current Expenditures

The following section examines the distribution of county current expenditures (excluding capital outlays) across the major county functions. These findings are based upon replies from the 18 counties

which responded to our survey. Table III-8, Distribution of County Current Expenditures Across Functional Areas: 1977-78 to 1979-80, shows how spending was allocated in our 18 county sample.

As the table indicates, the public assistance function (consisting of income maintenance and social service programs) is the largest single component of county current expenditures constituting 37.0 percent of 1979-80 spending in our sample. The next largest function is the public protection function (consisting of the courts, law enforcement, jails, fire services, and other protective services) which represents 24.3 percent of total current expenditures. Following the public protection function are the health and sanitation function (19.8%) and the general government function (11.1%).

Table III-8

Distribution of County Current Expenditures
Across Functional Areas: 1977-78 to 1979-80

	Percentage of Total Current Expenditure	
Function	1977-78	1979-80
General Government	12.5%	11.1%
Public Protection	21.9	24.3
Public Ways and Facilities	3.8	4.5
Health and Sanitation	18.5	19.8
Public Assistance	39.7	37.0
Libraries and Education	1.2	1.1
Recreation and Cultural	1.8	1.6
Debt Service	0.6	0.6
Total	100.0%	100.0%
N = 18		

Source: AOR County Finance Survey. The data was adjusted by including hospital enterprise expenditures in order to ensure comparability between years.

All other county activities amount to less than 8 percent of total county current expenditures.

As Table III-8 makes clear, the bulk of county current expenditures are focused on the "basic" or core county services of law enforcement, health, and welfare. The following table summarizes the county spending data presented above.

	Percentage of Total Current Expenditure	
Basic Services	1977-78	1979-80
Law Enforcement	21.9%	24.3%
Health	18.5	19.8
Welfare	39.7	37.0
Subtotal	80.1	81.1
Management and Other Services		
General Government and Debt	13.1	11.7
Roads	3.8	4.8
All Other Services	3.0	2.7
Subtotal	19.9	18.9
Total	100.0%	100.0%

As the table indicates, four-fifths of county current expenditures are focused on what we have defined as basic or essential services. Counties have many limitations on how they can manage these essential services. Federal and state laws and regulations govern much of the spending in health and welfare areas. Eligibility standards and benefit packages are set by higher levels of government. County flexibility in these areas is limited. In the law enforcement area the county has little control over court costs, the demand for jail space (a function

in part of how many police officers cities within the county choose to put on the street), the minimum standards for prisoners in jails, or the level probation services required by the state and the courts. Counties have control over the level of crime prevention and suppression service provided by the county sheriff, a function that is only 7.6 percent of total county spending. The fact that county flexibility is greatly restricted for nearly 80 percent of its budget means that any cutbacks must be focused on the remaining 20 percent of the budget (27 percent if sheriff's patrol activities are included). Focused on such a narrow base, such cutbacks, while small in terms of the overall budget, loom very large indeed. Cutting the "fat" out of government is difficult indeed when 80 percent of your budget is held immune by a combination of federal, state, and court mandates and a strong public demand for more law enforcement services.

Growth of Current Expenditures

Table III-9, Percentage Changes in County Current Expenditures By Function: 1977-78 to 1979-80, presents the growth rates of spending for the major county functions.

Table III-9

Percentage Changes in County Current Expenditures
By Function: 1977-78 to 1979-80

Function	Percentage Change 1977-78 to 1979-80	Percentage Share of 1979-80 Expenditures
General Government	-4.8%	11.1%
Public Protection	+25.5	24.3
Public Ways and Facilities	+25.5	4.5
Health and Sanitation	+16.8	19.8
Public Assistance	-3.0	37.0
Libraries and Education	-2.6	1.1
Recreation and Cultural	-4.3	1.6
Debt Service	+3.4	0.6
Total Current Expenditures	+7.5%	100%
N = 18		

Source: AOR County Finance Survey. Health function includes hospital enterprise expenditures.

As the table indicates, the public protection (+25.5%), public ways and facilities (+25.5%), and health and sanitation functions (+16.8%) experienced the most rapid growth during the study period. With the exception of the debt service category (+3.4%) all other functions experienced declines in total spending. The 3.0 percent decline in the public assistance category reflects the drop in federal CETA funds for counties, a 4.2 percent decline in AFDC caseload between 1977-78 and 1979-80, some reduction in discretionary county social services activities, and state assumption of the counties SSI/SSP contribution under the post-Proposition 13 bail-out legislation. The large increase

in spending for public roads (25.5%) appears to have been the result of counties spending additional local funds that have accumulated for several years. It is unlikely that future spending can continue to grow at this rate.

It is noteworthy that the general government, library, and park functions all suffered absolute reductions in spending even before adjustment was made to account for inflation. Since a consistent survey format was used to gather data for all three years (1977-78 to 1979-80) it appears that this decline cannot be due entirely to a reclassification of spending from general government to other categories. As was the case with cities, it appears that some of the celebrated "fat" has been cut from county budgets. When the impact of inflation is added to these nominal dollar cuts, these three areas of county spending have suffered real reductions ranging from 14.9 percent (libraries) to 16.5 percent (general government). This represents a substantial reduction in the real (inflation adjusted) resources devoted to these activities.

Distribution of County Expenditures By Object of Expenditure

Table III-10, County Expenditures By Object of Expenditure 1977-78 and 1979-80, shows how county expenditures are divided among employee compensation, operating costs and payments to individuals, and capital outlays. Employee compensation makes up approximately 45 percent of total county expenditures in 1979-80 while operating costs and payments to individuals make up 51 percent. Expenditures for fixed assets and capital projects account for only 3.2 percent of total county spending in 1979-80.

Table III-10

County Expenditures By Object of Expenditure 1977-78 to 1979-80

	Percentage of Total Expenditures	
Object of Expenditure	1977-78	1979-80
Employee Compensation	44.2%	45.3%
Operating Expenses and Benefit Payments to Individuals	51.7	51.4
Capital Outlays and Fixed Assets	4.1	3.3
	100.0%	100.0%

Source: AOR County Finance Survey

Per Capita Spending Levels and the Impact of Inflation

Table III-11, County Per Capita Current Expenditures By Functional Area, 1977-78 and 1979-80, shows county spending per capita for the major functions. It is based on reported spending and does not reflect adjustments for the SSI/SSP or Medi-Cal buy-outs. The table also adjusts the 1979-80 per capita spending totals to correct for the impact of inflation as measured by the Gross National Product (GNP) deflator for state and local government purchases during the 1977-78 to 1979-80 period (inflation was measured at 14.4 percent by this indicator).

Table III-11

County Per Capita Current Expenditures By Functional Area 1977-78 to 1979-80

Function	Current Dollars 1977-78	Current Dollars 1979-80	Change (%)	Constant 1977-78 Dollars 1979-80	Change (%)
General Government	$ 50.19	45.62	-9.1	39.87	-20.6%
Public Protection	83.66	100.44	+19.9	87.71	+4.8
Public Ways and Facilities	15.36	18.42	+19.9	16.10	+4.8
Health and Sanitation	74.32	80.10	+7.6	69.93	-5.9
Public Assistance	163.11	151.52	-7.2	132.36	-18.9
Libraries and Education	4.76	4.42	-7.1	3.86	-18.9
Recreation and Cultural	7.28	6.64	-8.8	5.80	-20.3
Debt Service	2.33	2.29	-1.7	2.00	-14.3
Total	400.88	409.59	+2.3	358.03	-10.7%

N = 18

Source: AOR County Finance Study

As the data above indicate, after correcting for the effects of population change and inflation in our sample, real county expenditures per capita (excluding capital outlays) fell by 10.7 percent over the study period. This figure compares generally with the 7.4 percent decline in real per capita total revenues discussed earlier. The figures shown above do not reflect state assumptions of Medi-Cal and SSI/SSP, or capital outlay spending. If those corrections are made the reduction in real per capita expenditures in our sample counties would have been 9.3 percent. While the revenue and expenditure figures do not agree exactly they both show a significant real decline in county resources. Whether we measure on the revenue side or on the expenditure side of the budgets, counties have suffered a significant reduction in their total resources since Proposition 13.

Table III-11 also emphasizes the fact that counties have assigned a high priority to the public protection function, which saw a real increase (4.8 percent) in per capita revenues during this period. The increase for the road function is more difficult to explain. It may be due to a spate of one-time projects that cannot be sustained once accumulated construction reserves are expended. Further data should be gathered in the future. The decline in the public assistance category reflect the state assumption of SSI/SSP and Medi-Cal funding responsibilities of counties, a 4.2 percent drop in AFDC caseload during the study period, and county reductions in non-mandated administrative and social services areas. Large reductions in inflation adjusted per capita spending for general government (-20.6 percent) and recreation and cultural activities (-20.3 percent). This information provides a picture of county priorities in the post-Proposition 13 era with law enforcement, roads and health programs high on the list, while general government, libraries, and parks are at the bottom.

C) Trends in County Employment

Total County Employment (Non-enterprise)

Information provided by the 18 counties responding to our finance survey indicates that county general fund supported employment (including hospital enterprise fund operations) declined slightly, falling by 0.5 percent between 1977-78 and 1979-80. The 18 counties responding to our survey contain slightly more than 75 percent of California's total population. Positions supported by the federally funded Comprehensive Employment and Training Act (CETA) program suffered a much sharper decline, falling 34.9 percent during the study period. Combining these two figures we find that total county employment fell by 2.4 percent, dropping from 181,274 positions in 1977-78 to 176,833 positions in 1979-80. Table III-12, County Employment Trends 1977-78 to 1979-80, displays the information discussed above for the counties responding to our survey. Table III-13, Individual County Employment Totals 1977-78 and 1979-80, shows total employment (CETA and non-CETA) for the 18 counties responding to our survey.

Table III-12

County Employment Trends 1977-78 to 1979-80

Population Size Group	Number of Counties Responding	Non-CETA Funded Positions			CETA Funded Positions			COMBINED TOTAL		
		1977-78	1979-80	Change %	1977-78	1979-80	Change %	1977-78	1979-80	Change %
Under 100,000	2 of 28	1,323	1,321	-0.2	103	94	-8.7	1,426	1,415	-0.8
100,000 to 199,999	2 of 8	1,994	2,121	+6.4	137	123	-10.2	2,131	2,244	+5.3
200,000 to 499,999	4 of 9	17,812	17,279	-3.0	938	571	-39.2	18,750	17,800	-4.8
500,000 to 999,999	6 of 8	46,238	46,247	0	3,526	2,021	-42.7	49,764	48,268	-3.0
1,000,000 and over	4 of 5	103,755	103,254	-0.5	5,448	3,802	-30.2	109,203	107,056	-2.0
Total	18 of 58	171,122	170,222	-0.5	10,152	6,611	-34.9	181,274	176,833	-2.4

Source: AOR County Finance Survey

NOTE: Non-CETA funded positions include employees of hospital enterprise operations to ensure comparability between total for the two years. Employees from other county enterprise fund activities were excluded.

Table III-13

Individual County Employment Totals 1977-78 and 1979-80

County	Total Employment (CETA and Non-CETA Funded) 1977-78	1979-80	Change (%)
Alameda	9,146	8,520	-6.9%
Contra Costa	5,529	5,083	-8.1
Fresno	6,063	5,770	-4.8
Kern	5,365	5,278	-1.6
Los Angeles	79,132	78,324	-1.0
Mendocino	952	930	-2.6
Monterey	2,694	2,557	-5.1
Orange	9,833	9,439	-4.0
Placer	1,047	1,149	+9.7
Riverside	6,454	6,962	+7.9
Sacramento	6,774	6,590	-2.7
San Bernardino	7,819	8,063	+3.1
San Francisco	18,259	17,168	-6.0
San Joaquin	4,628	4,245	-8.3
San Mateo	4,929	4,402	-10.7
Santa Clara	11,092	10,773	-2.9
Siskiyou	474	485	+2.3
Yolo	1,084	1,095	+1.0%

Source: AOR County Finance Survey

NOTE: Data include hospital enterprise employment but exclude all other enterprise activities.

As Table III-13 indicates, 13 of the 18 counties (72%) in our sample reported declines in total employment (exclusive of non-hospital enterprise activities) over the study period. As Table III-12 shows, declines were reported by counties of every population size group, except for those in the 100,000 to 199,999 population group. All four of the largest counties in our survey reported a decline in total employment (Alameda -6.9%; Los Angeles -1.0%; Orange -4.0%; and Santa Clara -2.9%). The only counties reporting substantial increases in employment were Placer (9.7%) and Riverside (7.9%), two of California's fastest growing counties over the last decade.

Comparison with EDD and Census Data on Employment

The U.S. Bureau of the Census annually collects data on public employment at all levels of government. Census data indicate that nationwide counties have increased total employment (measured in full-time equivalents) by 5.1 percent during the period from October 1977 to October 1979. The same data show that the California counties (excluding San Francisco) have increased total employment (as measured in full-time equivalents) by 1.4 percent, indicating that patterns in California counties differ substantially from those of counties in other states.

Data published by the Employment Development Department (EDD) show that total county employment (not measured on an FTE basis) declined by 7.7 percent between October 1977 to October 1978, while between October 1978 and October 1979 county employment increased 0.9 percent. Later data available from EDD indicate this trend has continued into the 1980-81 fiscal year. Total county employment, as measured in October 1980, has increased by 0.9 percent from the level attained in October 1979.

Data used by EDD and the Bureau of the Census cover all county employment including employees of enterprise funds (water, airports, hospitals, etc.) as well as employees supported by the proceeds of taxes and federal and state grants.

Bureau of the Census figures indicate that county employment has increased slightly in the two years after Proposition 13, while our survey results showed that county employment has slipped by 2.4 percent during the same period. This discrepancy appears to be due to a number of factors. Both the Census and EDD estimates include all county employees (including enterprise activities) while our survey focused on general fund supported and hospital enterprise employment. Our sample, covering 18 counties with 75 percent of the state's population, excluded 40 counties with 25 percent of the state's population. It is possible that our sample failed to pick up counties that experienced significant population growth. Finally, it is also possible that reclassification of employees among cities, counties, school districts and special districts by Census and EDD researchers might have contributed to the discrepancy between the survey results and the other estimates of county employment discussed above.

The growth rate in county employment reported by the Bureau of the Census (1.4%) for the October 1977 to October 1979 period is substantially lower than the growth rate reported by the Census for California state government during the same period. According to the Census figures, state employment (FTE) grew by 6.9 percent during the 1977 to 1979 period, a rate of growth far higher than that experienced by any level of local government. Taken as a whole, local government employment in California showed a decline of -0.8 percent from 1977 to 1979 while state employment grew by 6.9 percent.

Distribution of County Employment

Table III-14, Distribution of County Employment By Function, 1977-78 and 1979-80, indicates that the public protection (courts, sheriff, fire and corrections) and health and sanitation (health care, hospitals, mental health, and sanitation) functions are the two largest components of county employment constituting 30.7 and 30.6 percent, respectively, of total employment. Trailing in importance are the public assistance (16.0%) and general government (14.5%) functions. All other activities performed by the counties comprise less than 9 percent of total employment.

Table III-14

Distribution of County Employment By Function 1977-78 and 1979-80

Function	1977-78	1979-80
General Government	14.8	14.5
Public Protection	30.0	30.7
Public Ways and Facilities	3.5	3.3
Health and Sanitation	29.4	30.6
Public Assistance	17.0	16.0
Libraries and Education	2.3	2.0
Recreation	3.0	2.9
Total	100.0	100.0

Source: AOR County Finance Survey

Changes in County Employment

Table III-15, Percentage Changes in County Employment By Function 1977-78 to 1979-80, indicates that the health and sanitation function was the fastest growing component of county employment, increasing by

4.4 percent over the study period. Total health employment was driven upward by large increases in hospital (5%) and mental health employment (16.9%) in our sample. Employment in these sectors is largely a function of demand for health services at county hospitals or mental health clinics. The only other sector to show a positive growth rate was the public protection function, which rose 0.6 percent. Growth in this area was confined to judicial functions and county fire services. The police (sheriff's patrol) and jail functions showed slight declines over this period, which may be in part explained by reclassification or transfer of sheriff's personnel from other duties to court functions. All other areas of county employment declined.

Table III-15

Percentage Changes in County Employment
By Function 1977-78 to 1979-80

Function	Percentage Change 1977-78 to 1979-80
General Government	-3.2%
Public Protection	+0.6
Public Ways and Facilities	-6.3
Health and Sanitation	+4.4
Public Assistance	-4.5
Libraries and Education	-16.1
Recreation	-4.8

Source: AOR County Finance Survey. Growth rates reflect all non-CETA funded positions.

The Role of CETA in County Employment

CETA funded positions made up 5.6 percent of total county employment in our sample in 1977-78 and 3.7 percent in 1979-80. Total CETA funded employment dropped 35 percent between 1977-78 and 1979-80. This decline is similar to the 48 percent decline reported by cities during the same period. Since counties were not as heavily dependent upon CETA funded positions as cities, they appear to have been less affected by changes in CETA regulations and reductions in CETA funding during 1978-79 and 1979-80.

The reductions in CETA funded positions reported in our survey accounted for approximately 80 percent of the reported decline in total county employment (3,541 of 4,441 positions eliminated). While it is possible to argue that most of the reduction in CETA positions would have occurred in spite of Proposition 13 (due to rule changes and reductions in federal funding) our data make it clear that counties have been unable to expand non-CETA funded employment in order to retain the lost CETA positions. Indeed, counties have eliminated many non-CETA cutbacks. Finally, further reductions in the CETA program proposed by the Reagan administration make it likely that the balance of county employment supported by CETA (3.7%) will be phased out over the next few years.

D) Trends In County Capital Spending

Total Capital Spending

The following discussion of county capital spending is based upon data supplied by 18 counties and covers only county general fund supported capital spending. Excluded are capital spending for enterprise activities such as airports, refuse collection, or transportation systems.

Survey responses (representing 75 percent of total California population) showed that total capital spending decreased by 27.0 percent between 1977-78 and 1979-80. The 18 counties responding spent $214.3 million on general fund supported capital projects in 1977-78 and $156.4 million in 1979-80. Table III-16, County Capital Spending 1977-78 to 1979-80, displays the general fund capital spending for each group of counties responding to our survey.

Table III-16

County Capital Spending 1977-78 to 1979-80

Population Size Group	Number of Counties Responding To Survey	Capital Spending In Thousands 1977-78	Capital Spending In Thousands 1979-80	Percentage Change 1977-78 to 1979-80
Under 100,000	2 of 28	$ 475	$ 287	-39.7%
100,000 - 199,999	2 of 8	2,554	4,593	+79.8
200,000 - 499,999	4 of 9	31,870	42,762	+34.2
500,000 - 999,999	6 of 7	60,862	48,812	-19.8
1,000,000 and over	4 of 5	118,537	59,916	-49.5
TOTAL	18 of 58	$214,295	$156,370	-27.0%
Without Alameda County's 1977-78 Jail Expenditures		$175,895	$156,370	-11.1%

Source: AOR County Finance Survey

Table III-16 shows that counties in our survey displayed a wide range of changes in total capital spending. Counties in the largest size group showed the biggest decline, with their capital spending falling 49.5 percent over the two-year period. The largest contributor to this decline was Alameda County, which in 1977-78 reported spending $38.4 million to construct a new jail facility. This large one-time expenditure boosted total spending in the large counties with populations over one million. However, even if Alameda County's jail expenditures were eliminated from the survey, total capital spending for the largest counties would have fallen by 29 percent between 1977-78 and 1979-80, and total capital spending for all sample counties would have fallen 11.1 percent.

The decline in county capital spending noted in Table III-16 becomes even more dramatic if adjustments are made to account for the impact of inflation. Construction cost inflation, as measured by the Engineering News-Record Construction Cost Index, was approximately 17.2 percent during the study period. Using this figure to adjust the expenditures in Table III-16 we find that by 1979-80 capital spending declined by 24.2 percent if we exclude Alameda County's 1977-78 jail expenditures, and by 37.7 percent if we include all of Alameda's 1977-78 capital expenditures.

It is difficult to generalize about capital spending trends in the two groups of counties with populations under 200,000 because of the low response rate for counties of this size. While there are 36 such counties in California, these counties only contain 9 percent of California's population. Our data indicates a decline in capital spending (-39.7%) in the smallest counties and a substantial increase

(79.8%) in the next largest group. However, since the response rate was so low, these figures may not represent what has happened to capital spending in these 36 counties. These 36 counties are primarily rural counties with low population densities. Many of these counties are experiencing explosive population growth as more Californians leave urban areas and settle in rural areas, particularly in the foothill counties of the Sierra Nevada. These counties can be expected to experience increasing difficulties in providing capital facilities in coming years. Further research specifically aimed at California's smaller counties is needed to develop a better picture of post-Proposition 13 capital spending patterns.

Future Capital Spending

It is not clear from our survey data whether counties will be able to maintain capital spending at current levels in future years. Since we sampled such a brief time period (three fiscal years) we have no way to know whether capital spending in this period was comparable to spending in earlier years. It is also possible that capital spending measured by our survey represents the completion of projects planned or underway before Proposition 13, in which case it is possible that future years will see an even sharper decline in capital spending as old projects are completed and new projects delayed or eliminated.

Although we made no effort in our survey to quantify future county capital needs, many responses to our survey, as well as officials in counties where we conducted field interviews, expressed grave concern about their ability to meet future capital needs. County staff pointed to significant outstanding capital needs in the areas of court

facilities, jails and correctional facilities, and health and hospital facilities. In each of these areas the county is subject to facility licensing and/or capacity standards set by the courts or state and federal law and regulation, leaving the counties little flexibility in meeting these capital needs. This problem was particularly acute in the area of court and correctional facility needs. County staff we interviewed in nine counties (not including Los Angeles) informally indicated capital spending needs in excess of $190 million for court related facilities and $310 million for jails and other detention facilities, for which the counties have no current or forseeable funding source. Staff expressed great concern about what would happen to county operating budgets if federal or state courts mandate counties to construct these facilities (in order to meet various standards) using existing revenue sources.

Distribution of County Capital Spending

Table III-17, Distribution of County Capital Expenditures (Nonenterprise) By Function 1977-78 and 1979-80, presents information on how counties divided their nonenterprise fund capital expenditures among major county functions.

Table III-17

Distribution of County Capital Expenditures (Nonenterprise)
By Function 1977-78 to 1979-80

Function	Percent of Total Capital Budget 1977-78	1979-80
General Government	14.6%	18.1%
Public Protection (police, fire, jails, courts)	33.1	21.2
Public Ways and Facilities (i.e., roads)	10.8	16.9
Health and Sanitation	14.1	14.7
Public Assistance	3.3	3.6
Education and Libraries	4.7	.8
Recreation and Cultural	19.4	24.7

Source: AOR County Finance Survey

As the table illustrates, the public protection (21.2%), parks and libraries (24.7%), general government (18.1%), and public ways (16.9%) functions are the largest consumers of county capital funds. The sharp drop in the share of capital spending for public protection (33.1% in 1977-78 vs. 21.2% in 1979-80) reflects the $38.4 million in jail construction spending reported by Alameda County in 1977-78 and the absence of a similarly large figure in 1979-80.

It should be remembered that our survey did not examine county enterprise activity capital spending. Only activities reported in the city "general fund" budget were reviewed. Since local tax support of the bulk of enterprise capital spending is limited (due to reliance on revenue bonds and state and federal grants) we have not examined these areas of capital spending in the context of this study.

E) Changes in the Levels of Selected County Services 1977-78 to 1979-80

Introduction

This section presents our findings concerning changes in the levels of selected county services during the 1977-78 to 1979-80 period. The services reviewed were police protection, street and road programs, library services and park and recreation programs. We did not review changes in service levels in health and welfare programs because these programs are already monitored by state agencies that publish a variety of caseload, cost and benefit.

As was the case with our review of municipal service levels, our study focused on quantitative measures which may provide less than a complete picture of what has happened to the overall level or quality of service in each area. Readers interested in getting a flavor of some of the qualitative changes are directed to the summary of county comments on service levels contained in Appendix VI. Due to the low response rate to some questions and the differences among counties in their record keeping practices with respect to the service level indicators contained in our survey, the results discussed below should not be considered as precise measures of changes in service levels but as indicators of the general trends in these areas.

Police Protection

Counties in our survey have been unable to maintain the 1977-78 level of service into the 1979-80 fiscal year. While the number of sworn staff of the county sheriffs responding to our survey has increased during the study period the increase has not been sufficient to keep pace with population increases. As a result, the ratio of sworn

officers per 10,000 county residents has dropped between 1977-78 and 1979-80, while the amount of time it takes for the county sheriff's department to respond to a call from the public has increased.

Only 11 of our 17 counties provided data for all three years on the number of calls for sheriff's department assistance received from the public. The 11 counties responding reported a 12.5 percent increase in calls for assistance over the study period. The number of calls rose from 572,032 in 1977-78 to 643,535 in 1979-80. Every county responding except one reported an increase in the number of calls received. The most dramatic increases were reported by the counties of Mendocino (59.2 percent) and Placer (24.1 percent). The only decline reported was in San Joaquin County (-1.8 percent). Unfortunately, three of the largest counties in our survey (Alameda, Los Angeles, and Santa Clara) did not provide information for this question. In spite of this problem, we believe it is safe to conclude that there has been a significant increase in the public demand for law enforcement services during the study period. This increase outstripped population increases in the responding counties by a wide margin (12.5 percent increase in calls vs. a 6.1 percent increase in population).

The total number of budgeted positions for sworn county law officers increased by 1.2 percent in the 17 counties that responded to our questions in this area. This change represented an increase from 11,478 sworn officers to 11,616 during the study period. Nine counties (53 percent) reported increases, three counties (18 percent) reported no change, and five counties (29 percent) reported decreases in the total number of sworn law officers, and three of the five counties reporting decreases in the total number of sworn staff were among the largest

counties in California--Alameda (-2.8 percent), Los Angeles (-2.4 percent) and Orange (-4.2 percent). The two counties with the largest increases, Riverside (13.2 percent) and San Bernardino (26.2 percent) were two of the fastest growing counties in California. Table III-18, Budgeted Number of County Sworn Law Officers 1977-78 to 1979-80, displays the results of our survey.

Table III-18

Budgeted Number of County Sworn Law Officers
1977-78 to 1979-80

Population Size Group	County	Number of Sworn Officers 1977-78	1978-79	1979-80	Percent Change 1977-78 to 1979-80
Under 100,000	Mendocino	74	76	76	2.7%
	Siskiyou	40	40	40	0
100,000 to 199,000	Placer	114	119	120	5.3
	Yolo	132	120	131	-0.8
200,000 to 499,000	Fresno	296	301	282	-4.7
	Kern	330	330	331	0.3
	Monterey	227	238	242	6.6
	San Joaquin	272	272	272	0
500,000 to 999,000	Contra Costa	398	402	405	1.8
	Riverside	421	454	476	13.1
	Sacramento	704	704	746	6.0
	San Bernardino	602	692	760	26.2
	San Mateo	308	305	342	11.0
Over 1,000,000	Alameda	599	591	582	-2.8
	Los Angeles	5,646	5,465	5,511	-2.4
	Orange	660	617	632	-4.2
	Santa Clara	655	658	668	2.0
TOTAL		11,478	11,384	11,616	1.2%

The total number of civilian sheriff's department employees in the 17 counties responding to our survey increased by 1.6 percent during the 1977-78 to 1979-80 period, rising from 4,332 to 4,404. Thirteen counties (76 percent) reported increases in the number of civilian staff while four counties (24 percent) reported decreases. Decreases were reported in Fresno (-3.2 percent), San Mateo (-19.6 percent, a decline from 97 to 78), Alameda (-9.5 percent, a decline from 339 to 307), and Los Angeles (-6.8 percent, a decline from 2,044 to 1,905). The largest increases were in two small counties, Placer (+72 percent) and Yolo (+114 percent).

Table III-19

Total Budgeted Number of Civilian and Sworn Sheriff's Department Staff, 1977-78 and 1979-80

Population Size Group	County	Total Number of Positions 1977-78	1979-80	Percent Change 1977-78 to 1979-80
Under 100,000	Mendocino	97	115	18.6%
	Siskiyou	53	53	0
100,000 to 199,000	Placer	146	175	19.9
	Yolo	153	176	15.0
200,000 to 499,000	Fresno	391	374	-4.3
	Kern	485	491	1.2
	Monterey	304	326	7.2
	San Joaquin	358	358	0
500,000 to 999,000	Contra Costa	534	549	2.8
	Riverside	703	815	15.9
	Sacramento	900	984	9.3
	San Bernardino	805	1,014	25.9
	San Mateo	405	420	3.7
Over 1,000,000	Alameda	938	889	-5.2
	Los Angeles	7,690	7,416	-3.6
	Orange	1,027	1,015	-1.2
	Santa Clara	821	850	3.5
TOTAL		15,810	16,020	1.3%

Table III-19, Total Budgeted Number of Civilian and Sworn Sheriff's Department Staff 1977-78 and 1979-80, shows how total staffing has changed during the study period. As the table shows, three of the four largest counties in the sample reported decreases in this area.

Only 10 of the counties in our sample provided data for all three years on the sheriff's department response time to calls for assistance from the public. The average response time slowed from 9.4 minutes in 1977-78 to 10.4 minutes in 1979-80, a decline of 10.6 percent over the study period. Six counties (30 percent) reported constant response times, and Alameda County was the only county to report a faster response time (dropping from seven to six minutes). Alameda County attributed this improvement to the implementation of a "911" emergency telephone system. This was a noteworthy achievement given the reduction in total department staffing in Alameda County during the study period. Table III-20, Sheriff's Department Response Times 1977-78 and 1979-80, displays the data we collected in this area.

Table III-20

Sheriff's Department Reponse Times 1977-78 and 1979-80

County	Response Time in Minutes 1977-78	1979-80
Alameda	7	6
Contra Costa	7	8
Fresno	4	5
Monterey	7	7
Placer	7	8
Riverside	6	8
Sacramento	14	16
San Mateo	15	15
Siskiyou	20	20
AVERAGE	9.4	10.4

The number of sworn officers per 10,000 county residents in our 17 sample counties dropped from 7.1 officers to 6.9 officers per 10,000 residents, a decline of 2.8 percent. Twelve counties (71 percent) reported a decline, including all four of the largest counties in our sample (Alameda, Los Angeles, and Orange Counties). These three counties contain nearly 49 percent of the state's total population. Counties in the 500,000 to 1,000,000 population size group were the only one's to consistently report stability or improvement. Table III-21, Number of Sworn County Law Officers Per 10,000 Residents, presents the data we collected in this area. The differences between the larger and smaller counties reflects the lack of significant city police forces in the small counties, resulting in a more important role for the sheriff's department.

Table III-21

Number of Sworn County Law Officers Per 10,000 Residents

Population Size Group	County	Sworn Officers Per 10,000 Residents 1977-78	1979-80	Percent Change 1977-78 to 1979-80
Under 100,000	Mendocino	11.8	11.5	-2.5%
	Siskiyou	10.7	10.5	-1.9
100,000 to 199,000	Placer	11.0	10.3	-6.4
	Yolo	12.4	11.6	-6.5
200,000 to 499,000	Fresno	6.2	5.7	-8.1
	Kern	9.0	8.6	-4.5
	Monterey	8.3	8.3	0
	San Joaquin	8.7	8.4	-3.5
500,000 to 999,000	Contra Costa	6.5	6.3	-3.1
	Riverside	7.1	7.1	0
	Sacramento	9.6	9.6	0
	San Bernardino	8.2	9.4	14.6
	San Mateo	5.3	5.8	9.4
Over 1,000,000	Alameda	5.4	5.3	-1.9
	Los Angeles	8.0	7.4	-7.5
	Orange	4.2	3.9	-7.2
	Santa Clara	5.4	5.3	-1.9
WEIGHTED AVERAGE		7.1	6.9	-2.8%

The data above indicate that counties have not been able to increase sworn staff fast enough to keep pace with population changes. County staff we interviewed, particularly in Santa Clara County, suggested that these figures understate the problem because sworn staff has been shifted out of the field to cope with problems in overcrowded county jails.

Street and Road Programs

In general, county road programs reflected a decline similar to that shown by city street programs. There was a decline of 9.5 percent

in the number of miles of road repaved or maintained between 1977-78 and 1979-80. Table III-22, Summary Data on County Road Programs in 17 Sample Counties, displays this information.

Table III-22

Summary Data on County Road Programs in 17 Sample Counties

Fiscal Year	Total Lane Miles in Survey Counties	Lane Miles Repaved or Chip Sealed	Percent of Road System Treated
1977-78	44,907	3,594	8.0%
1978-79	44,094	3,253	7.4
1979-80	44,426	3,252	7.3
Percent Change 1977-78 to 1979-80	-1.1%	9.5%	

Of the 17 counties responding, nine counties (53 percent) reported reductions in the number of miles of county roads repaved or chip sealed (a major maintenance procedure) while eight counties (47 percent) reported increases. This pattern held true for small, medium and large population counties. The sharpest decreases were reported by Yolo (-25 percent) and Riverside (-42 percent) Counties. Among the largest counties, Los Angeles (-11.6 percent) and Santa Clara (-8.1 percent) reported decreases while Alameda (+12.6 percent) and Orange (+43.3 percent) reported increases.

County officials we interviewed provided different opinions about the status of their road maintenance programs. Several counties indicated they were experiencing difficulty in keeping to a barely adequate level of maintenance (Yolo, Riverside), while other counties (Alameda, Santa Clara) indicated that roads were not a top priority problem at the present time. We made no effort to assess whether the county road

programs in our survey counties were adequate in an engineering sense, rather we sought to identify trends in this area over the 1977-78 to 1979-80 period. While there has been a decline in the total number of miles subject to repaving or chip sealing in our sample counties, there is no clear cut pattern.

Library Programs

County library services were subject to significant reductions during the study period, both in terms of library public service hours and the amount of money available for book purchases (after adjusting for inflation).

In our 17 counties' sample, the total number of library public service hours per week (the sum of the number of hours per week that each central and branch library is open to the public) declined by 19.4 percent, falling from 16,523 to 13,324 hours. Sixteen of the 17 counties in our sample reported reductions in the number of library public service hours. Only Siskiyou County was able to hold constant its library public service hours. The four largest counties in our survey reported declines ranging from 7.0 percent in Los Angeles to 49.8 percent in Alameda County.

A further review of our data indicated that counties have reduced the total number of branch libraries by 10.4 percent (a decline from 413 branches to 369). Eleven counties reported closing libraries while five held constant the number of branches, and one county (San Joaquin) added one branch. Among the four largest counties in our sample only Alameda held constant its number of branch libraries (12) while Los Angeles, Orange and Santa Clara reduced the number of branch libraries.

After adjusting for inflation in the price of books, total book spending among 17 sample counties dropped by 6.4 percent, falling from $6.72 million to $6.29 million (in constant 1977-78 dollars) during the study period. (In current dollars spending on books rose from $6.72 million to $7.54 million, a 12 percent increase during the study period.) Fourteen counties (82 percent) reported a decline in this area while only three counties (18 percent) reported increases in constant dollar book expenditures. Among the four largest counties, only Orange County reported an increase (+95.7 percent). San Mateo (-51.8 percent), Santa Clara (-50.6 percent) and Placer (-58 percent) reported the sharpest declines.

County libraries have been very hard hit by post-Proposition 13 reductions. Officials we interviewed expressed regret that libraries had been so hard hit, but felt that libraries were near the bottom of the county priority list.

Park and Recreation Programs

Few counties provided data concerning park and recreation programs, reflecting the fact that special districts provide park and recreation services in many unincorporated areas. Data supplied in our survey indicate that county park programs were subject to major reductions during the study period.

Fourteen counties responded to our survey question regarding the number of acres of parkland maintained by each county park maintenance worker. Thirteen counties (93 percent) reported increasing the number of acres maintained by each employee and only one (Monterey) managed to decrease the acreage per worker. For our total sample the average

number of acres maintained per worker rose 26 percent, rising from 144 acres to 182 acres per worker. These large acreages reflect the fact that counties maintain large acreage regional recreation facilities. The sharpest increases were reported in Riverside (+104 percent), Fresno (+45 percent), Los Angeles (+43 percent), and Santa Clara (+119 percent) counties.

Only six counties indicated that the county employed recreation program staff. These six counties (Fresno, Kern, San Joaquin, Sacramento, Los Angeles, and Orange) reported a 47.8 percent decline in the number of recreation staff between 1977-78 and 1979-80. The total number of such staff fell from 285 to 149. Table III-23, County Recreation Program Staff 1977-78 and 1979-80, presents the responses to our survey question.

Table III-23

County Recreation Program Staff
1977-78 and 1979-80

County	Staff 1977-78	Staff 1979-80	Percent Change 1977-78 to 1979-80
Fresno	1	1	0%
Kern	13	0	-100.0
Sacramento	31	25	-19.4
San Joaquin	10	5	-50.0
Los Angeles	227	115	-49.3
Orange	1	1	0
TOTAL	285	149	-47.8%

The limited data indicate that county park and recreation programs were subject to substantial reductions, confirming comments made during the field interviews concerning the low priority assigned such programs in the competition for scarce county budget resources.

CHAPTER IV

The Legal Powers of Cities and Counties to Raise Revenue at the Local Level

Introduction

The purpose of this chapter is to summarize the legal powers of cities and counties to raise revenue from non-property tax sources in the wake of Proposition 13 (the Jarvis-Gann Initiative of 1978) and Proposition 4 of 1979 (the Gann Initiative). A thorough discussion of all these issues and a detailed inventory of the statutory authority for each of the major city and county revenue sources is contained in Appendix I of this report.

The Legal Authority of Cities and Counties to Raise Revenue Before Proposition 13

The legal ability of local governments to raise revenues differs for counties and cities controlled by general state law and cities which have adopted charters pursuant to Article XI, Section 5 of the Constitution.

General Law Cities and Counties

General law cities and counties have traditionally had the following powers:

Fees: Service and regulatory fees limited to the cost of the service or regulation provided have been imposed without express authority in state law, although fees are frequently authorized by statute.

Special Assessments: Specific statutory authorization has been required for the imposition of special assessments. "Special" or "benefit" assessments are charges levied upon land on the basis of the benefit conferred in order to finance the construction of public improvements.

Taxes: General law cities and counties have required specific statutory authority to impose taxes.

Charter Cities

Charter cities have had constitutional authority to levy charges in the form of fees, special assessments and taxes without specific statutory authority. Where a charge or tax appears to conflict with general state law the courts determine whether the subject matter of the charge or tax is a "municipal affair" or an area of "statewide concern." If the subject of the charge or tax is a municipal affair the charter city ordinance will control over the conflicting state law. However, where the subject matter of the charge or tax is an area of statewide concern state law will preempt the conflicting local ordinance.

Proposition 13 and Subsequent Court Cases and Legislative Enactments

Proposition 13 consists of several sections which together effect what the courts have identified as its purposes: property tax relief and the imposition of limitations on general government spending. The courts have concluded that Section 4 of the proposition limits the ability of local governments to replace lost property tax revenues by providing that "special taxes" may be imposed by these governments only with a two-thirds vote of the electorate.

The term "special tax" was not defined by the proposition and has no commonly understood meaning in case law or in statute. As yet, neither the courts nor the Legislature have clearly defined what charges constitute "special taxes."

In the four appellate court cases interpreting Section 4 of Article XIII A, the courts have evaluated the charges at issue in light of their interpretation of the purposes of the proposition. Thus, in one case it was held that the increase of a business license tax constituted a levy of a special tax since it was a general tax "from which no specific tangible benefit is derived by the taxpayer." The court concluded that to sustain the tax would allow local government to replace lost property tax and proceed with its general government spending programs. By contrast, other appellate courts have held that both fees and special assessments are not "special taxes" since both these charges must be reasonably related to the benefit, privilege or service conferred by government upon the person or property on which the charge is levied.

The Legislature has enacted Government Code Section 50075 et seq., empowering local governments to raise "special taxes" and specifying a procedure to do so. However, the Legislature failed to define the term, specifying only that fees were not special taxes. The Legislature has also authorized several new special assessments since the passage of Proposition 13, including assessments for the financing of services unrelated to the construction of public improvements.

Unresolved Legal Questions After Proposition 13

Two related legal questions remain unresolved concerning the ability of local governments to levy fees, special assessments and taxes.

1. What is a special tax? As noted above, there is still no conclusive definition of the term. Only one case has found a

charge to be a special tax. The courts may yet conclude that "special tax" means all revenue-producing charges exceeding the cost of the service or benefit conferred.

2. How far may local governments go in devising innovative fees and special assessments? Since fees and special assessments have been determined not to constitute special taxes it is likely that local governments will devise innovative charges in these forms. However, it is questionable whether special assessment procedures may be used to finance general municipal improvements, such as police and fire stations, and the maintenance of public improvements.

The Gann Initiative

The Gann Initiative limits the amount of revenue which state and local governments may spend by imposing a ceiling on "appropriations subject to limitation." Such appropriations may only increase concommitantly with increases in population and the Consumer Price Index. The initiative specifically exempts fee revenues from this limitation. A recent Court of Appeal decision holds that revenues from special assessments are also not subject to the spending limitation.

Conclusion

The following is a summary of local government's legal ability to raise non-property tax revenues after the passage of Article XIII A, Article XIII B, court cases construing these articles, and subsequent legislative enactments.

General Law Cities and Counties

Fees: General law cities and counties may impose fees limited to the cost of the service or regulation provided. Voter approval is not required and fee revenue is not subject to the appropriation limitation. The limits of what services may be provided for on a fee basis are untested.

Special Assessments: These local governments may impose special assessments only if specifically authorized by the state Legislature but voter approval is not required. Revenues received from this source are not subject to the appropriations limitations.

Special assessments have been used traditionally to finance the construction of public improvements which confer a special benefit on the property assessed. More recently the Legislature has authorized the use of special assessment procedures for the maintenance of public improvements. It has not been determined that this financing mechanism can be used for general public improvements and for the maintenance of public improvements or for services unrelated to these improvements.

Taxes: General law cities and counties may impose or increase "special taxes" only with voter approval. The only charge which has been determined to constitute a special tax was an increase in a business license tax which was expressly intended to generate revenue for a city's general fund. In light of the reasoning of appellate court decisions it appears likely that charges which exceed the costs of the service, regulation, privilege or benefit conferred by government will be determined to be special taxes.

General law cities and counties do not require legislative authorization for the specific tax levied.

All taxes which are determined not to constitute special taxes will not require voter approval but will require specific authorization from the Legislature.

Revenue from all taxes will be included in the appropriations limitations.

Charter Cities

Charter cities may impose or increase fees, special assessments and taxes without legislative approval. Fees and special assessments may be imposed without voter approval and are not subject to the appropriations limitation.

Charter cities are required to obtain voter approval (by a two-thirds majority) for the imposition or increase of "special taxes." The appellate court has ruled that increases in existing taxes in charter cities must be approved by a two-thirds majority of those voting in an election on the question. Hence, with regard to non-property taxes, charter cities are subject to the same strict standard (two-thirds local vote) as are general law cities and counties.

CHAPTER V

Major Issues Raised in Field Interviews With County and City Staff

This chapter is devoted to a brief review of the major themes raised by county and city staff we interviewed in the course of the 36 field interviews conducted during our study. These interviews provided our staff with an opportunity to explore in depth the major problems confronting city and county managers and finance directors. A list of the cities and counties where interviews were conducted is set out below. The interview formats and a list of the persons interviewed is contained in Appendix IX.

County Interviews

Alameda	Placer	San Francisco
Los Angeles	Riverside	San Joaquin
Mendocino	Sacramento	Santa Clara
Orange	San Diego	

City Interviews

Anaheim	Fontana	Long Beach	Placerville	San Jose
Compton	Fresno	Los Angeles	Rialto	Sunnyvale
Covina	Inglewood	Modesto	Sacramento	Thousand Oaks
Cerritos	Jackson	Oakland	Salinas	Willows
Eureka	La Mirada	Palm Springs	San Diego	
Fairfield				

Cities

General Fiscal Condition

Our field interviews revealed the impossibility of making generalizations about the fiscal condition of California cities. While cities such as Oakland and Compton are suffering from what their own officials (and our survey data) indicated was a seriously weakened fiscal

condition, other cities we surveyed (Anaheim, Cerritos, Fairfield, and Sunnyvale) have maintained a very healthy fiscal position, Proposition 13 notwithstanding. Other cities fell somewhere between these two extremes.

In the view of city staff the key indicators of fiscal health are (1) the rate of "discretionary revenue" growth relative to the general rate of inflation, (2) the extent to which the number of locally funded city staff position could be maintained in the face of inflation and slower revenue growth, (3) the city's flexibility and fiscal capability to respond to new citizen demands (particularly in the law enforcement field), and (4) the ability of the city to maintain and, where necessary, expand its capital facilities.

Response to Proposition 13

In response to Proposition 13's major cut in city tax revenues, most cities were forced to trim local services. Fire and police services were spared from serious cutbacks, an outcome consistent with city staff reports that their city councils put fire and police services at the top of their priority lists. As a result of sparing this large sector of the city budget (40 percent in most cities) heavier cuts fell on the remaining areas--library operations, park and recreation programs, street maintenance programs, general city administrative offices, and a variety of social and community services. Planned capital replacement projects and on-going maintenance of existing facilities and equipment were also targets of city budget reductions. Cities made cutbacks both by reducing the number of jobs and trimming services provided. Where reductions in staff occurred, they occurred by attrition rather than by layoffs, though layoffs were used in cities facing serious problems.

Major Factors Influencing the Fiscal Outlook

There was surprising agreement among city staff concerning six major areas:

1) The impact of inflation on city operations, both in its effect on payroll costs and operating expenses such as fuel, utilities, asphalt, and the myriad other products consumed by cities. The rapid pace of inflation has been the chief budget cutting mechanism in the post-Proposition 13 era. While nominal city revenues have increased since July 1, 1978, the real purchasing power controlled by cities has fallen. Hence, managers and employees have to make do with lower real resources in the face of rising population.

2) The loss of effective local control of the tax base due to Proposition 13's property tax rate limit and the two-thirds vote requirement to raise other taxes was a major factor mentioned by most city staff. Staff believed that the post-Proposition 13 local finance system has been "frozen" and cities can no longer adjust tax revenues to respond to local needs. The two-thirds vote requirement makes it difficult (if not impossible) to generate sufficient revenue to maintain (or expand) services the public desires. As a result, city staff feel far more dependent on state assistance (and state control) than they were prior to Proposition 13. Because the property tax is now controlled by the state (through statutes allocating the proceeds of the 1 percent tax) cities feel far more uncertain about the stability of a major funding source. Given the state's fiscal problems and the "deflator" clause in AB 8, the

"long-term" post-Proposition 13 state-local funding measure, local officials feel they do not have a stable fiscal basis on which to plan future city activities.

3) Public safety employee pension costs were of serious concern to officials in Los Angeles and Oakland. While these cities have recently changed the pension provisions in their charters as they apply to new employees, they are saddled with a tremendous financial obligation with respect to public safety employees hired at earlier dates. Unlimited cost-of-living increases for such retired employees have put tremendous pressure on current city budgets. Until inflation is controlled, these cities will be forced to devote larger shares of their current budgets to the costs of paying pensions for past employment. In the case of both Los Angeles and Oakland, current fiscal distress is in large part a function of past decisions made by local elected officials (and voters) in an era when seemingly unlimited property taxes were available to fund generous pension plans. The State Controller has reported that as of June 30, 1979, California's 22 cities with separate retirement systems have a combined unfunded pension liability of $4.8 billion. This debt represents a large claim on future municipal revenues.

Officials in other cities pointed to the "lavish" pensions in Oakland and Los Angeles as "self-inflicted wounds" that should not be considered if the state implemented a "need-based" system of financial aid to cities. To do so, they felt, would be to penalize cities that were more frugal in compensating their employees.

4) The future of federal aid to cities was a major factor influencing the fiscal outlook of cities. Proposed cutbacks in the CETA jobs program, EPA waste water treatment grants, transportation programs, and urban development grant programs, were all thought to lead to a major reduction in cities' ability to respond to local needs. Given the rigid local tax system city staff felt there would be little chance cities could replace these cuts with local dollars.

5) The uncertain future of city capital programs was often noted in our interviews. The loss of the ability to issue general obligation bonds backed by the property tax reductions in federal aid, the slow growth of gas tax subventions, and the erosion of maintenance budgets all were mentioned as impairing cities' ability to maintain, replace, and expand the capital stock needed to provide Californians with a decent municipal environment. This problem will appear first in the older central city areas (Oakland, Los Angeles) where other problems have already pushed city government into fiscal difficulties.

   Growing cities, such as Fairfield or Thousand Oaks, have relied on fees levied on new construction to fund additions to their capital stock. While this method may work to supply <u>new</u> facilities in growing areas, several persons questioned whether it would work when it came time to overhaul or replace existing capital facilities.

6) Finally, there was a high degree of uncertainty about the future revenue base of cities. Given all other factors listed

above, city staff are finding it difficult to prepare long run capital plans to enter into multi-year labor agreements, or to plan for the orderly development of existing services and facilities. Several city finance directors noted that the absence of long run planning may be "penny wise and pound foolish" when the problems ignored today must be corrected at higher cost in the future.

Employee Compensation and Personnel Issues

Generally speaking, city staffs we interviewed felt that their cities have been able to increase their employees' compensation enough over the 1977-78 to 1979-80 period to remain competitive in the labor market. In no instance did city staff indicate, however, that pay and benefit increases had kept pace with the change in the Consumer Price Index (CPI). Appendix II of our report presents data on city and county compensation growth which bears out these contentions. It indicates that compensation growth for city employees, while slightly higher, has not differed markedly from that of county or comparable school district employees.

Another area of interest was the degree to which fiscal constraints confronting local government in post-Proposition 13 era have impacted affirmative action programs. Our interviews indicated that while the pace of affirmative action recruitment may have been slowed somewhat, because fewer hiring opportunities were available, city staff reported that affirmative action progress had not been reversed since layoffs had been minimal. Most cutbacks were absorbed through attrition.

New Revenue Sources

Local governments have not been anxious to place special tax measures before the voters. Only four of the 24 cities participating in our interviews had placed a special tax measure on the ballot. All four measures were defeated. In November 1980, the City of Los Angeles had two measures on the ballot for special taxes to finance fire department facilities and equipment. Both measures were defeated. At its April 1981 municipal election, Oakland requested voter approval of a special tax ($50 per year per single family home and $15 per apartment unit) for expansion of police services. The measure was defeated. Two small cities, Willows and Jackson also proposed special taxes during 1980 and both measures were defeated. Finally, voters in Los Angeles rejected a special tax in June 1981 to fund additional police services.

On the other hand, every city contacted indicated some or all existing (traditional) fees or charges have been increased since the passage of Proposition 13. City administrators were quick to declare that such increases were a response to higher costs and general inflation. Therefore, such increases have not provided surplus revenues beyond those necessary to finance the delivery of the service for which the fees are charged.

Most cities indicated they did not believe there was any real potential for fees and charges to support a larger portion of their city's budget. The two exceptions were Los Angeles and San Diego, neither of which levies a residential refuse collection fee. Both cities would realize substantial revenues if such fees were in effect (Los Angeles, +$50 million, San Diego, +$11 million). However, Los Angeles officials are sensitive to a negative public reaction and

San Diego's charter prohibits the levying of a residential refuse collection fee. Increased fees might offset tax support for street cleaning, and several cities mentioned this as a possible revenue source of some magnitude. Park and recreation fees have been increased in many cities, but as officials from Oakland, Sacramento, Compton, and other cities pointed out, increases in these fees may reduce park usage by young people in low-income neighborhoods and result in an increase in vandalism and delinquency--both of which increase other city and county costs.

With respect to police, fire, and street services (the major functions performed by cities), city staff were uniformly pessimistic about increased support from user fees. Inglewood tried unsuccessfully to implement a "fire flow fee" (based on resources required to suppress a fire) to support its fire department. Opposition to the measure led to its abandonment. Most cities felt voters would react strongly to such fees, claiming the new fees amount to an "end run" on Proposition 13.

What new taxes cities have levied in the last three years seem to have been approved by city councils in the three week gap between Proposition 13's adoption (June 6, 1978) and its effective date (July 1, 1978). Several cities including Sacramento, Oakland, and San Jose imposed or increased existing non-property taxes during this period. The opportunity to increase such taxes is now gone since Proposition 13 requires a two-thirds vote of the electorate to increase or impose taxes, even in charter cities.

Finally, staff interviewed in virtually every city insisted that the state gasoline tax must be increased in order to provide more money

to repair and maintain city streets. Without such aid, staff were pessimistic about the ability of cities to continue to provide a decent street system.

The State-Local Revenue System

Many of the local officials we interviewed expressed the view that the property tax reduction caused by Proposition 13 was not the most significant long run impact of the initiative. Rather, it was their belief that Proposition 13 was a major blow to the concept of local control of city fiscal affairs.

Proposition 13 and the two major statutes implementing the initiative (SB 154 of 1978 and AB 8 of 1979) greatly reduced local control of city finances by eliminating local control of the property tax (the maximum rate is limited by Article XIII A and the allocation is governed by statute), eliminating general obligation bonds as a source for financing local capital projects and by requiring a two-thirds majority vote to impose or change non-property taxes. These changes, coupled with state control or preemption of the other two major revenue sources (sales and income taxes) have made cities more dependent than ever before on the state. The continuation of the state "bail-out" assistance in AB 8 is vital for many cities. Given the "deflator" clause in AB 8 which requires a reduction in local government and school aid should state revenues fall below certain target figures, cities are subject to a great deal of uncertainty about their revenues. Cities must now await legislative action on the state budget before action can be taken on the city budget. While this is not a new state of affairs for school districts or county governments, it comes as a shock to many city officials used to a high degree of local fiscal autonomy.

In the cities with major fiscal problems (Oakland, Los Angeles, Compton) there is a feeling that Sacramento will have to help out, preferably with new revenue sharing measures or, if new revenue is not available, by less severe cutbacks in state "bail-out" aid when cutbacks are required. While many of the staff interviewed expressed some interest in the state's use of "need-based" formulas for allocating revenues (or cutbacks), most were skeptical of the feasibility of constructing a fair measure of need that was not susceptible to manipulation. Additional concern was expressed about whether such a "need-based" system would penalize "frugal" cities in order to aid "needy" cities, at least in part, due to conscious decisions to spend on items such as salaries, retirement plans, and non-essential services.

Counties

General Fiscal Condition

As is the case with cities, the counties we surveyed displayed a range of fiscal strength ranging from a fairly strong condition (Orange County) to serious distress (San Francisco, Santa Clara). Throughout our interviews county officials emphasized the degree to which they felt county fiscal health was dependent upon outside factors that they could not control. These factors included federal and state mandates in health, welfare, and criminal justice programs; general economic conditions which influence health and welfare caseloads; and workloads in the criminal justice system (courts, prosecutors, public defenders, jails, etc.). County staff pointed out that nearly 80 percent of county budgets are devoted to health, welfare, or criminal justice programs. The balance of county programs have borne the brunt of cutbacks necessitated by Proposition 13's cut in property taxes and the failure of federal and state reimbursements to keep pace with mandated health and welfare costs.

Response to Proposition 13

In response to Proposition 13's major reduction in property taxes, counties' leading revenue source until that time, counties made reductions in a variety of local, non-mandated programs. The structure of the state's fiscal assistance program for counties (SB 154 of 1978 and AB 8 of 1979) ensured that the basic income maintenance and health programs (AFDC, SSI/SSP, Medi-Cal) were not affected by Proposition 13. Generally speaking, counties placed a high priority on maintaining police, court, and jail services, sparing them from major cuts. As a result, reductions were focused on library, park, capital outlay, general government overhead, and discretionary local social service programs. A few counties were actually required to layoff employees (Alameda and Mendocino, for example). Most counties were able to make reductions in employment through elimination of job vacancies and attrition.

Major Factors Influencing the Fiscal Outlook

When asked to discuss the major factors affecting their county's future fiscal health, county staff emphasized five major areas:

1) The impact of inflation on payroll and operating costs was cited by nearly all county staff interviewed. In addition to the same areas that cities noted, counties pointed to the very rapid inflation rate in the medical services area as a major influence on county budgets. Mandated by state law to provide health care for indigent persons, counties reported rising health care costs as a major financial worry. These costs are only partially reimbursed by the state and as a result, increases in this area have absorbed a growing share of local discretionary revenues.

2) County staff cited the loss of effective local control of the local tax base due to Proposition 13 as a major factor affecting their fiscal condition. In the past, counties were able to adjust the property tax rate when other revenues fell short of the amount required to support mandated and locally demanded services. Loss of that ability has forced counties to trim locally desired (but non-mandated) services in order to balance county budgets. Loss of local control is directly tied to increased dependence on state and federal government funding. Given the state's fiscal problems and AB 8's "deflator" provision, county staff indicated that they lack a stable fiscal basis on which to plan future budgets. Hence, the loss of local control of revenues and the instability and uncertainty of a state controlled system make it very difficult for county staff to address future needs or emerging problems in a systematic manner.

3) County staff predict that rising crime rates and the public demand for more effective law enforcement will put a tremendous demand on county budgets. Counties bear most of the costs of the local criminal justice system and have no choice but to respond to increases in crime by shifting additional resources to court and correction programs. Not only do counties have to respond to crime problems in unincorporated areas but they must also respond to demands arising from incorporated areas as well. As cities add more sworn officers and increase their arrests, counties must gear up to handle larger jail and court workloads.

4) The future of federal funding for county activities was also of great concern to persons we interviewed, who mentioned federal cutbacks in funding for assistance to Indo-Chinese refugees will place a greater burden on county funded health and welfare programs. Reductions in county funding from the Federal General Revenue Sharing program (Proposition 13 has reduced county "tax effort" used to calculate California's share of national allocations and city and county shares of California's allocation) has cut county discretionary revenue by nearly $75 million in 1980-81. Finally, proposed cuts in federal Medi-Cal funding may force additional costs in county funded health programs.

5) All county staffs we interviewed mentioned inadequate capital funding. Staff of several counties pointed out that they are required to maintain facilities (jails and hospitals) of sufficient size to adequately service demand while complying with licensing standards. Several counties (Sacramento, Santa Clara, Placer, San Joaquin, and Orange) will need to build new jails or overhaul existing facilities, but county officials report that they cannot raise sufficient funds to meet these needs. Staff of several counties described a similar situation with respect to hospital and health facilities. Almost all staffs we interviewed indicated a growing problem in maintaining county roads and bridges. In all these cases county staff felt that capital funding was being postponed or eliminated in favor of urgent demands for current service programs.

Employee Compensation and Personnel Issues

County staff we interviewed felt that their county had been able to increase employees' compensation sufficiently to remain competitive in the labor market. Exceptions to this general rule were the fields of nursing, data processing, engineering, and in some counties, deputy sheriffs. These job categories were experiencing more rapid turnover and concern was expressed about whether salary levels were adequate given competition in the private sector or in other public jurisdictions. In no instance did county staff indicate, however, that pay and benefit increases had kept pace with the change in the Consumer Price Index (CPI). Appendix II of our report presents data on city and county compensation growth which bears out these contentions. It indicates that compensation growth for city and county employees has not differed markedly from that of school district or state employees.

Have fiscal constraints confronting local government in the post-Proposition 13 era impacted county affirmative action programs? Discussions with county staff indicated that affirmative action recruitment may have been slowed somewhat, but recent progress has not been reversed since actual layoffs (which would impact new employees) were not substantial and most cutbacks were accomplished through attrition.

New Revenue Sources

Counties have not been anxious to put special tax measures before the voters since Proposition 13. Only San Francisco has succeeded in obtaining two-thirds voter approval to raise general local taxes. There, voters agreed to raise the hotel tax from 8 to 9.5 percent and to raise the tax on public parking lots. The same voters rejected two other tax measures, one to impose a payroll/gross receipts tax and

another measure to increase the tax on private parking lots. Los Angeles and Alameda counties got approval to increase benefit assessments for the county governed flood control district. A similar measure failed in San Joaquin county.

Several county officials suggested that voters will not approve any new local taxes or increases in existing taxes until the state-local revenue system stabilizes. Several persons suggested to us that any increase in local tax effort would only result in a corresponding reduction of state assistance. Under such an assumption it would hardly be rational for local taxpayers to approve local tax increases.

In almost every county where we interviewed, local fees and charges were raised after Proposition 13, with the goal of recovering all "costs" for services where fees are imposed. However, given the fact that such activities account for a small share of total spending relative to the major county programs (health, welfare, and justice) where fees cannot be levied, every county official we interviewed dismissed the possibility that fees and charges could become a significant county revenue source.

Finally, county officials were unanimous in calling for an increase in the state gasoline tax. Without increased revenues to support additional road maintenance, counties felt that the public's massive investment in the existing road system would be jeopardized.

State-Local Revenue System

In addition to the loss of local control of county tax revenues and the uncertainty and instability of the state system for funding county operations cited above, counties expressed great dissatisfaction with the entire fabric of state-county fiscal relationships.

Several county officials emphasized that the counties are administrative arms of the state with respect to most of their major functions in the health, welfare, and criminal justice areas. The state and the counties are in effect, involved in a partnership which involves program and procedural mandates as well as complex funding arrangements. Most county staff we interviewed felt, however, that their relationship with the state was primarily adversarial, with each side seeking to improve its position at the expense of the other. Given the state's sovereign position, it usually wins in battles with the counties.

County officials expressed support for a wholesale re-examination and revision of the division of responsibility and financial support for state and local government functions. They expressed an interest in moving towards a system of "block grant" funding for broad program areas. Such a system would give counties more flexibility in dealing with local needs. Several administrators felt that such a system would make best use of the main strength of local government -- the ability to respond to particular local needs in a timely and sympathetic manner.

CHAPTER VI

Need-Based Formulas For Allocation of State Aid to Local Governments

Background

The federal government has made extensive use of need-based formulas to distribute aid to state and local governments. Categorical programs have traditionally used formulas which attempt to target funds to cities and counties which have the greatest need for financial support in specific program areas. In 1972, the Congress enacted the General Revenue Sharing program, which was the first major non-categorical program of aid to local general purpose governments. The major issue in the development of this program was the formula to be used as the basis for the distribution of funds. So controversial was this issue that Congress could not agree on one formula, and the compromise distribution procedure requires the use of two separate formulas.

In recent years, state aid to local governments has become increasingly more important as a source of general purpose revenues. According to a recent study conducted by the Advisory Commission on Intergovernmental Relations, 49 of the 50 states provide some form of general (noncategorical) revenue assistance to local governments. In 1977, this assistance amounted to $6.6 billion nationwide, of which about $1.5 billion, or 23 percent, was distributed on the basis of a specific "need" related formula. The balance of the aid was disbursed on the basis of population, reimbursement for property tax exemptions, or situs of collection of designated shared revenues.

In California, about $1.2 billion is being distributed to cities, counties and special districts in 1980-81 to be used for general fund purposes. This amount includes $428 million of reimbursement for homeowner's and business inventory property tax exemptions, and $676 million in vehicle license fees, distributed on the basis of population. The Financial Aid to Local Agencies Fund, amounting to $34 million in 1980-81, uses a formula which recognizes relative income levels and welfare caseloads.

The general aid (block grants) provided to California local governments by SB 154 in the year following the passage of Proposition 13 was allocated in proportion to the amount of property tax lost, with no explicit attempt to recognize "need" factors. Funding for major state mandated health and welfare programs was maintained by state assumption of the counties' share of the costs. For 1979-80, AB 8 contained essentially the same level of aid, converting the state block grant payments for cities, counties and special districts to property tax revenues by modifying the property tax allocation and increasing aid to schools. Again, no specific need basis was considered.

The Concept of Need

The literature on the subject of local government "need" makes a distinction between the two basic components of need--(a) the need for public services and programs (expenditure need), and (b) the need for funds to support those programs (revenue need). The former may be determined by a number of factors such as the proportion of dependent persons in the total population, the population density and the degree of congestion, the age of a city's municipal infrastructure and housing

stock, the crime rate, and the unemployment rate. The second component of need relates to its fiscal capacity, i.e., the wealth and income levels of a city or county's population which comprise its tax base.

An overall assessment of expenditure needs first involves assigning priorities to the various kinds of need that may exist, such as police or fire protection, recreation facilities, programs for the elderly or the young, street maintenance or refuse disposal. Assignment of priorities is essentially a political process which may be accomplished at the local level or at the state or federal level with respect to the use of intergovernmental transfer funds. Because the relative ranking of need is the result of political decision making in many diverse settings, it is virtually impossible to devise an expenditure needs formula which would be acceptable to all.

The revenue aspect of the need determination is less complex but no less controversial. The tax base consists of both individual income and wealth and business income and wealth and the question of the relative tax burdens on the two sectors is always at issue. Beyond this issue is that of the distribution of wealth and income and the progressivity or regressivity of local tax systems.

Problems in the Measurement of Need

Compounding the conceptual problem involved in the determination of need are the difficulties in selecting the appropriate indicators to reflect need, and the accuracy, reliability and timeliness of the data that comprise those indicators. Although service needs and revenue needs can be distinguished conceptually, in practice a single indicator may reflect both sides of the equation. For example, high rates of

unemployment, low income levels, and declining population may all be indicative of both a high level of service need and a low level of fiscal capacity. Frequently it is necessary to use a "proxy" measure to reflect need. For example, the deteriorating condition of an older city's infrastructure (streets, sewers and utilities), may be the source of the city's greatest need. Because it is not feasible to measure precisely all aspects of physical deterioration, a proxy may be used which measures the "age" of the city. The city's age may be determined by the number of years elapsed since a threshold level of population was reached, or the percent of the housing stock built prior to a particular date. Selecting the proper indicator to measure either service need or fiscal capacity is made even more difficult by the lack of accurate and timely data. Income data, population or population change, and unemployment rates are either estimates of questionable accuracy or census information which is current only at five or ten year intervals.

In addition to service demand and revenue capacity, a third factor based on revenue or tax "effort" is often incorporated in federal or state revenue sharing formulas. This factor is measured either by the ratio of taxes collected to the tax base, or by the ratio of per capita tax collections for a particular community to the statewide average tax collections. Inclusion of tax effort in a revenue sharing formula implicitly assumes that a high level of taxation has resulted from a high level of need. This assumption may not be valid in all cases. Communities may simply elect to have a higher than average level of service and therefore tax themselves accordingly, or a high level of taxes and expenditures may result from inefficiencies.

Having determined which need indicators are relevant for a particular assistance program, the final problem in the development of a need formula is the specific technique used to combine the various indicators. Two general techniques have been used. The first, divides the total amount of money to be distributed into several pools (i.e., one for cities, counties and special districts) and then distributes each of the pools on the basis of a single need factor. Here the critical decision is the percentage of the total amount of funds that goes into each pool. The second technique, involves the construction of an index of need which combines all of the individual factors into a single value which is then used to distribute the total of the funds. In this procedure the critical decisions become the "weights" assigned to the factors and whether they are additive or multiplicative. The use of multiplicative factors tends to give relatively more weight to extreme cases. One justification for this practice is that factors such as poverty and old housing are far more serious in combination than they are in isolation.

Current Federal and State Allocation Formulas

Appendix VII contains a discussion of several major federal and state programs that allocate funds to cities and counties on a formula basis. The factors used most often in these formulas include population, population growth rates, per capita income, unemployment rates, local tax effort (tax revenues per capita), and percentage of population living below the poverty level.

All formula allocation systems depend upon the availability and reliability of data used to calculate the allocations. Appropriate data are often available for all jurisdictions only at the decennial census.

Between censuses the federal government's formulas rely on the last available census data, resulting in an inability to keep pace with changing local economic conditions. In other instances, (i.e., unemployment rates) current data are available but are not prepared for all cities and counties. As a result, such data are of little use for formulas designed to aid individual cities and counties.

Measures of "Need" Among California Cities

In order to investigate the ability of the state to assess "need" of cities as a criteria for awarding (or reducing) state revenues shared with cities, we ranked our survey cities according to a variety of possible indicators of fiscal need. These rankings are displayed and discussed below.

Table VI-1, City Per Capita Discretionary Revenues in 1979-80, displays information about how cities rank in terms of percapita discretionary revenues in 1979 and how fast those revenues have grown between 1979-78 and 1979-80. Discretionary revenues are composed of those revenues received by a city that are not restricted to a special purpose. These revenues include sales taxes, property taxes, local taxes, unrestricted state subventions, federal revenue sharing funds, fines, permits, interest earnings and other miscellaneous revenues. The principle exclusions are federal and state categorical grants and user fees and charges. As the table clearly shows, many of the cities that had the highest levels of percapita discretionary revenue in 1979-80 (i.e., Oakland, Long Beach, Los Angeles, Richmond) had very slow growth in per capita discretionary revenues. Conversely, some of the cities with the lowest levels of discretionary revenues (Lakewood, Norwalk, Pico Rivera,

Table VI-1

City Per Capita Discretionary Revenues In 1979-80

Name	1979-80 Discretionary Revenues	Rank	Percent Growth 1977-78 to 1979-80	Rank
Arcadia	$236.03	64	24.8	78
Bakersfield	287.19	77	9.1	44
Burbank	353.90	89	28.9	82
Campbell	237.62	65	12.3	53
Chula Vista	155.63	22	-0.1	20
Colfax	283.98	76	-10.5	5
Compton	143.94	17	13.0	55
Concord	159.33	26	8.5	39
Costa Mesa	282.10	74	8.7	41
Cotati	235.68	63	75.8	90
Covina	213.02	47	13.5	58
Daly City	141.84	16	-4.2	15
Del Mar	266.59	69	8.6	40
Downey	174.99	33	9.7	48
El Cerrito	165.28	28	-6.7	10
El Monte	156.53	24	19.3	72
Exeter	116.88	9	3.2	28
Fairfield	218.11	52	9.7	49
Fontana	180.70	36	39.8	88
Fountain Valley	131.82	15	-0.5	19
Fremont	165.87	29	3.1	27
Fresno	235.16	62	-0.0	21
Fullerton	187.10	37	3.5	29
Garden Grove	120.70	11	-2.1	17
Glendale	267.52	70	19.6	73
Grand Terrace	114.08	8	.	.
Hayward	257.32	67	13.4	57
Hercules	852.57	93	-52.1	1
Huntington Beach	208.96	46	-0.7	18
Indian Wells	727.11	92	81.7	91
Inglewood	229.53	59	14.8	61
Irvine	205.27	44	-9.2	6
Lakewood	105.31	4	19.1	71
La Mesa	148.48	18	-5.0	12
Lancaster	154.58	21	377.5	92
La Palma	99.93	3	-4.8	13
Live Oak	167.39	30	39.7	87
Long Beach	282.79	75	6.3	32
Los Angeles	294.09	79	2.1	23
Madera	173.54	32	7.6	37
Marysville	303.35	83	9.8	50
Modesto	214.82	50	7.0	35
Norwalk	109.54	6	38.5	86
Oakland	301.68	82	2.6	24
Oceanside	202.92	41	-2.8	16
Ontario	169.69	31	-6.1	11
Orange	224.47	58	7.1	36
Pacific Grove	213.82	48	26.4	79
Palm Springs	527.48	91	13.6	60

Table VI-1 - continued

Name	1979-80 Discretionary Revenues	Rank	Percent Growth 1977-78 to 1979-80	Rank
Palo Alto	407.29	90	22.4	75
Pasadena	322.63	86	12.2	52
Pico Rivera	120.18	10	40.6	89
Pinole	110.73	7	-7.1	9
Pismo Beach	270.06	71	9.6	46
Pomona	224.39	57	2.1	22
Portola Valley	126.48	13	27.1	81
Rancho Palos Verdes	81.57	1	13.6	59
Redding	299.64	81	6.6	34
Redwood City	231.06	60	4.9	31
Rialto	163.76	27	23.2	76
Richmond	346.29	88	-8.0	8
Riverside	221.87	55	4.8	30
Sacramento	272.32	72	13.3	56
Salinas	204.85	43	2.6	26
San Anselmo	177.91	34	-4.5	14
San Buenaventura	221.70	54	12.6	54
San Diego	215.18	51	9.7	47
San Gabriel	156.10	23	18.3	68
San Jose	219.64	53	18.9	70
San Leandro	276.21	73	17.9	67
San Marino	200.84	40	-10.6	4
San Pablo	129.64	14	-41.3	2
Santa Barbara	250.34	66	23.9	77
Santa Clara	323.22	87	34.7	85
Santa Monica	319.85	85	27.0	80
Santa Rosa	208.91	45	9.0	42
Seaside	189.86	38	6.6	33
Soledad	106.07	5	15.7	64
South Gate	121.22	12	18.6	69
Stanton	159.25	25	8.3	38
Stockton	259.53	68	2.6	25
Thousand Oaks	149.46	19	33.5	84
Torrance	291.35	78	16.1	66
Vallejo	224.36	56	9.5	45
Walnut Creek	204.71	42	9.0	43
Wasco	92.91	2	-19.0	3
Watsonville	233.12	61	14.9	62
West Covina	198.27	39	31.0	83
Westminster	150.04	20	10.4	51
Whittier	180.18	35	16.1	65
Willows	214.62	49	-8.0	7
Yreka	304.72	84	15.1	63
Yuba City	295.70	80	22.0	74

NOTE: In the rankings 1=lowest value recorded

SOURCE: AOR County Finance Survey

Soledad) reported some of the highest growth rates of these revenues during the study period. Depending upon whether one chooses to judge "need" based on the levels of per capita discretionary revenues or on the growth rate of these revenues one can arrive at drastically different conclusions about the degree of "need" in the same city.

Table VI-2, Growth in Per Capita Sales Tax Revenues 1969-70 to 1979-80 and Population Growth 1960-1980, shows how our survey cities rank on two other common measures of city fiscal capacity, sales tax growth between 1970 and 1980 and population growth between 1960 and 1980. It is often asserted that "distressed" cities experience slow growth in sales tax revenues per capita and in population. "Distressed" central cities often lose population due to migration to the suburbs which reduces the size of a city's middle class tax base. The table shows a city's 1980 population as a percent of its 1960 population and its 1980 sales tax revenues per capita as a percentage of its 1970 figure. The state average population growth for cities that existed in both 1960 and 1980 was 49.3 percent. For sales tax, the state average growth in per capita revenues was 153.4 percent. The rankings of individual cities in terms of these two growth rates provide a quick measure of how well cities have performed in the areas of population and sales tax growth relative to other cities in our sample. It is important to note, however, that not all cities that rank low on these two measures are distressed cities. For instance, cities may have low population growth rates due to restrictive building and land use policies.

Table VI-2

Growth In Per Capita Sales Tax Revenues 1969-70 to 1979-80 and Population Growth 1960-1980

Name	Population Growth (%)	Rank	Growth in Per Capita Sales Tax (%)	Rank
Arcadia	12.1	20	306.1	76
Bakersfield	97.5	55	162.5	37
Burbank	-7.1	3	159.0	34
Campbell	124.2	63	395.9	83
Chula Vista	99.5	56	121.4	19
Colfax	6.8	15	234.1	65
Compton	10.4	18	71.3	4
Concord	181.5	70	207.5	60
Costa Mesa	116.1	62	246.4	71
Cotati	*	.	171.6	43
Covina	64.7	49	111.2	11
Daly City	71.5	50	177.5	48
Del Mar	62.6	46	134.8	27
Downey	-0.1	7	142.9	29
El Cerrito	-10.8	1	117.5	14
El Monte	502.2	81	120.4	18
Exeter	29.6	30	133.5	25
Fairfield	284.9	79	342.9	80
Fontana	135.7	66	109.1	10
Fountain Valley	2,553.5	84	353.4	81
Fremont	200.3	75	182.1	50
Fresno	60.8	45	196.7	57
Fullerton	81.3	52	171.8	44
Garden Grove	48.8	40	188.7	54
Glendale	15.1	21	152.0	32
Grand Terrace	*	.	**	.
Hayward	29.7	31	237.4	67
Hercules	1,805.5	83	7,188.4	89
Huntington Beach	1,384.5	82	239.3	68
Indian Wells	*	.	88.5	6
Inglewood	48.5	39	67.0	3
Irvine	*	.	**	.
Lakewood	10.9	19	123.8	21
La Mesa	64.1	48	126.4	22
Lancaster	*	.	**	.
La Palma	*	.	490.1	86
Live Oak	36.9	35	344.15	69
Long Beach	6.8	16	219.42	16
Los Angeles	19.1	23	139.7	28
Madera	50.2	41	213.5	61
Marysville	3.5	12	163.4	38
Modesto	188.1	72	119.7	17
Norwalk	-3.9	4	297.1	73
Oakland	-8.8	2	106.6	9
Oceanside	198.9	73	54.8	2
Ontario	88.4	54	160.1	35
Orange	245.9	78	341.7	79
Pacific Grove	29.5	29	487.5	85
Palm Springs	134.0	64	166.6	40

Table VI-2 - continued

Name	Population Growth (%)	Rank	Growth in Per Capita Sales Tax (%)	Rank
Palo Alto	5.0	13	187.4	53
Pasadena	1.3	9	112.8	13
Pico Rivera	8.6	17	205.2	59
Pinole	135.7	65	300.3	74
Pismo Beach	200.0	74	332.6	78
Pomona	37.9	36	183.0	52
Portola Valley	*	.	328.1	77
Rancho Palos Verdes	*	.	**	.
Redding	228.9	77	111.5	12
Redwood City	22.1	24	161.2	36
Rialto	101.6	58	244.9	70
Richmond	3.3	11	490.5	87
Riverside	101.5	57	236.3	66
Sacramento	34.2	34	167.8	41
Salinas	177.8	69	163.4	39
San Anselmo	2.7	10	268.7	72
San Buenaventura	185.4	71	119.2	15
San Diego	52.6	42	173.0	45
San Gabriel	33.5	33	130.8	23
San Jose	205.8	76	174.5	47
San Leandro	-3.9	5	168.8	42
San Marino	-2.6	6	122.9	20
San Pablo	0.3	8	194.1	56
Santa Barbara	27.4	28	153.3	33
Santa Clara	48.3	38	381.6	82
Santa Monica	5.9	14	146.7	30
Santa Rosa	164.2	68	133.0	24
Seaside	55.4	44	639.4	88
Soledad	107.8	60	106.1	8
South Gate	24.0	25	52.4	1
Stanton	111.6	61	134.5	26
Stockton	173.3	51	188.8	55
Thousand Oaks	*	.	226.0	64
Torrance	30.0	32	216.9	63
Vallejo	26.7	27	201.0	58
Walnut Creek	432.4	80	182.9	51
Wasco	39.5	37	100.5	7
Watsonville	82.8	53	79.9	5
West Covina	53.1	43	181.8	49
Westminster	161.8	67	407.0	84
Whittier	103.0	59	150.4	31
Willows	15.2	22	174.3	46
Yreka	24.4	26	213.7	62
Yuba City	63.1	47	301.1	75

NOTE: In the rankings 1=lowest value recorded

*City did not exist in 1960
**City did not exist in 1970

SOURCE: Calculations based on Board of Equalization data.

Table VI-3, City Per Capita Income in 1977, shows each city's per capita personal income in 1977, the last year for which such data are currently available. The table also shows each city's figure as a percentage of the 1977 state average per capita personal income of $6,487 and how each city ranks in terms of the other cities in our survey. As the table indicates, cities with incomes below the state average are not confined to the major metropolitan areas (i.e., Compton, Richmond, Riverside) but extend into rural areas (i.e., Live Oak, Madera, Seaside, Wasco) as well.

Table VI-3

City Per Capita Income in 1977

Name	1977 Income	1977 Income As percent of State Average	Rank
Arcadia	$ 9,995	154	89
Bakersfield	6,009	92	31
Burbank	7,496	115	71
Campbell	6,547	100	47
Chula Vista	5,792	89	24
Colfax	4,957	76	11
Compton	3,431	52	2
Concord	6,993	107	63
Costa Mesa	6,532	100	46
Cotati	5,028	77	13
Covina	6,078	93	33
Daly City	6,591	101	49
Del Mar	8,930	137	86
Downey	7,842	120	79
El Cerrito	8,929	137	85
El Monte	4,296	66	4
Exeter	5,087	78	14
Fairfield	5,504	84	19
Fontana	5,499	84	18
Fountain Valley	6,888	106	60
Fremont	6,804	104	58
Fresno	5,495	84	17
Fullerton	7,710	118	74
Garden Grove	6,203	95	36
Glendale	7,987	123	80
Grand Terrace	7,778	119	76
Hayward	6,212	95	37
Hercules	8,229	126	81
Huntington Beach	7,302	112	69
Indian Wells	14,440	222	92
Inglewood	5,605	86	20
Irvine	7,240	111	68
Lakewood	6,766	104	54
La Mesa	7,397	114	70
Lancaster	6,605	101	50
La Palma	6,648	102	51
Live Oak	4,599	70	6
Long Beach	7,031	108	64
Los Angeles	6,661	102	52
Madera	4,689	72	7
Marysville	5,982	92	30
Modesto	6,225	95	38
Norwalk	4,920	75	10
Oakland	6,397	98	43
Oceanside	5,710	88	23
Ontario	5,214	80	15
Orange	6,716	103	53
Pacific Grove	6,768	104	55
Palm Springs	8,793	135	84
Palo Alto	9,720	149	87
Pasadena	7,720	119	75

Table VI-3 - continued

Name	1977 Income	1977 Income As percent of State Average	Rank
Pico Rivera	$ 4,741	73	8
Pinole	7.184	110	66
Pismo Beach	6,550	100	48
Pomona	4,788	73	9
Portola Valley	13,405	206	91
Rancho Palos Verdes	10,971	169	90
Redding	5,933	91	27
Redwood City	7,792	120	77
Rialto	5,359	82	16
Richmond	5,837	89	26
Riverside	5,954	91	29
Sacramento	6,231	96	39
Salinas	5,809	89	25
San Anselmo	8,313	128	82
San Buenaventura	6,954	107	61
San Diego	6,308	97	42
San Gabriel	6,774	104	56
San Jose	6,462	99	44
San Leandro	7,792	120	77
San Marino	16,053	247	93
San Pablo	6,058	93	32
Santa Barbara	7,040	108	65
Santa Clara	6,973	107	62
Santa Monica	8,547	131	83
Santa Rosa	6,780	104	57
Seaside	4,480	69	5
Soledad	2,761	42	1
South Gate	4,985	76	12
Stanton	6,493	100	45
Stockton	5,945	91	28
Thousand Oaks	7,233	111	67
Torrance	7,689	118	73
Vallejo	6,157	94	34
Walnut Creek	9,869	152	88
Wasco	3,968	61	3
Watsonville	5,702	87	22
West Covina	6,822	105	59
Westminster	6,283	96	41
Whittier	7,641	117	72
Willows	5,679	87	21
Yreka	6,272	96	40
Yuba City	6,168	95	35

NOTE: In the rankings 1=lowest value recorded.

SOURCE: Bureau of the Census

We have attempted to construct a simple index which would combine several of these different measures to arrive at a common need index number that could be used to rank cities according to "need". Table VI-4, City Scores on a Sample "Need" Index, shows how each city in our sample scored on our need index and how each city's score ranked against other cities in the sample. We were unable to compute an index score and a ranking for nine cities that incorporated after 1960 because complete historical data was not available.

Our need index was calculated using the following factors:

1) The percentage growth rate of sales tax revenue per capita between 1970 and 1980. This was a proxy for the health of a community's business community.

2) The rate of the state average 1977 per capita income to the city's 1977 figure. This was a proxy for the wealth of a city's citizens.

3) The ratio of a city's 1960 population compared to its 1980 population relative to the state average for all cities that existed in 1960 and 1980. This was a proxy for the "maturity" of a city on the assumption that mature cities achieved a large share of their current population earlier than new fast growing cities. This proxy helped target older central cities, ones often cited as being especially needy.

As Table VI-4 indicates, some cities generally considered to be distressed because they have large low income populations (such as Compton, Oakland, Inglewood, and South Gate) score high on our need index relative to other cities in our sample. Conversely, many fast

growing cities in fairly sound fiscal condition (such as Hercules, Fairfield, Santa Clara, Walnut Creek, and Redding) score low on our index. Unfortunately, there are some troubling examples of cities that don't fit the basic pattern set out above. Several cities with very high per capita incomes also score very high on our need index (Burbank and El Cerrito). These cities' high scores are attributable to negative population growth rates and the fact that they are relatively mature cities that exceeded their current population in 1960 and have declined since. On the other hand, several low income cities (Seaside, El Monte) score very low on the need index because of rapid population and sales tax growth which more than offset low average incomes.

In an effort to further examine the value of the sample need index we developed, we examined the correlations between the ranking of the sample cities on our need index and their rankings on several other criteria. Evaluated at the 95 percent confidence level, we could find no significant correlation between a sample city's rank on our need index and its rank in terms of per capita discretionary revenue, per capita total revenues, the growth rate of discretionary revenues during the 1977-78 to 1979-80 period, or the growth rate in total revenues during the study period.

Our index obviously is not perfect. It is intended, however, merely to be illustrative of the difficulty involved in trying to construct a formula for distributing state aid (or cuts in state aid) that reflects local needs. This difficulty is reflective of the general problem of designing a centrally controlled (state) system that is responsive to local needs. Traditionally, we have relied on local governments to determine what level of taxation is required to respond to local needs. While that system has displayed some obvious problems

Table VI-4

City Scores on a Sample "Need" Index
(Higher score implies more "need")

Name	AOR Index Score	Rank
Arcadia	54	20
Bakersfield	78	38
Burbank	136	68
Campbell	33	9
Chula Vista	96	49
Colfax	139	71
Compton	378	84
Concord	40	11
Costa Mesa	50	19
Cotati	*	.
Covina	116	60
Daly City	78	37
Del Mar	72	33
Downey	129	63
El Cerrito	141	72
El Monte	43	13
Exeter	159	78
Fairfield	26	6
Fontana	90	44
Fountain Valley	2	2
Fremont	42	12
Fresno	93	48
Fullerton	64	29
Garden Grove	92	45
Glendale	106	54
Grand Terrace	*	.
Hayward	90	43
Hercules	0	1
Huntington Beach	6	3
Indian Wells	*	.
Inglewood	176	79
Irvine	*	.
Lakewood	146	73
La Mesa	89	42
Lancaster	*	.
La Palma	*	.
Live Oak	113	59
Long Beach	149	75
Los Angeles	129	64
Madera	111	58
Marysville	150	76
Modesto	62	27
Norwalk	130	65
Oakland	201	80
Oceanside	93	46
Ontario	96	50
Orange	23	5
Pacific Grove	47	16
Palm Springs	44	14

Table VI-4 - continued

Name	AOR Index Score	Rank
Palo Alto	83	41
Pasadena	147	74
Pico Rivera	156	77
Pinole	36	10
Pismo Beach	28	7
Pomona	131	67
Portola Valley	*	.
Rancho Palos Verdes	*	.
Redding	59	24
Redwood City	98	51
Rialto	65	30
Richmond	69	31
Riverside	60	26
Sacramento	109	56
Salinas	57	22
San Anselmo	78	36
San Buenaventura	56	21
San Diego	93	47
San Gabriel	117	61
San Jose	45	15
San Leandro	122	62
San Marino	70	32
San Pablo	137	70
Santa Barbara	108	55
Santa Clara	49	18
Santa Monica	110	57
Santa Rosa	58	23
Seaside	47	17
Soledad	207	81
South Gate	260	83
Stanton	76	34
Stockton	82	39
Thousand Oaks	*	.
Torrance	77	35
Vallejo	104	53
Walnut Creek	16	4
Wasco	221	82
Watsonville	131	66
West Covina	83	40
Westminster	29	8
Whittier	63	28
Willows	136	69
Yreka	100	52
Yuba City	60	25

NOTE: In the rankings 1=lowest value recorded. In this case implying the least "need".
* No score recorded due to insufficient data.

The Index was computed as follows:

$$\frac{\text{State Average}}{\text{City per capita sales tax growth 1970-1980}} \times \frac{\text{State average}}{\text{1977 city per capita personal income}} \times \frac{\text{City's 1960 Population as a percent of its 1980 pop.}}{\text{State average}} \times 100$$

(poor services in "poverty pockets" with low incomes, central city distress as the middle class moves to the suburbs) it has generally served the demands of the public for responsive local services. Proposition 13 and subsequent implementing legislation have drastically altered this system by greatly limiting local fiscal autonomy, especially in the taxation field. The resulting increase in direct state involvement in local finances will inevitably lead to interest in "formula" allocation systems for state controlled resources. As the discussion of our index indicates, design of an appropriate formula may be a difficult, if not impossible task.

Table VI-5, Impact on Cities of the Governor's Proposed Property Tax Shift (AB 251), shows how the property tax shift from cities to school districts proposed in the Governor's Budget for 1981-82 (details of the shift are contained in AB 251--Vasconcellos of 1981 as amended March 17, 1981) would affect cities in our sample. Since the shift is based on the amount of state "bail-out" aid allocated to cities after Proposition 13, the cutback falls most heavily on the cities which were hardest hit by Proposition 13's tax reduction. The losses range from zero in cities that received no bail-out aid to $83.9 million in Los Angeles. Measured on a per capita basis the losses range from less than $1 per capita to over $51 per capita in Richmond. Finally, the losses, as a percentage of a city's 1979-80 discretionary revenues range from 1.2 percent in Hercules to a high of 20.1 percent in San Marino. How one judges the "equity" of the proposed shift depends upon the criteria used to judge the plan. These criteria could focus on the per capita impact, the impact on discretionary local revenues, or the proportional amount of bail-out aid received from the state after Proposition 13. Los Angeles, Long Beach, Oakland, and Richmond rank near the top on all of these measures.

Table VI-5

Impact on Cities of the Governor's Proposed Property Tax Shift (AB 251)[a]

Name	1980-81 Tax Base to be Shifted	Tax Shift as a Percentage of 1979-80 Discretionary Revenue	Rank	Per Capita Tax Shift	Rank
Arcadia	$ 542,148	5.0	45	$11.79	58
Bakersfield	1,271,253	4.2	30	11.32	50
Burbank	1,830,179	6.1	65	21.84	84
Campbell	283,018	4.4	32	10.64	46
Chula Vista	783,895	6.0	63	9.35	38
Colfax	9,837	3.5	20	10.06	42
Compton	443,662	3.8	23	5.59	14
Concord	871,057	5.3	52	8.54	32
Costa Mesa	1,046,556	4.5	35	12.89	64
Cotati	24,756	3.0	16	7.21	24
Covina	476,768	6.5	73	14.38	71
Daly City	994,072	8.8	83	12.94	65
Del Mar	88,802	6.6	71	17.48	79
Downey	967,159	6.6	72	11.73	56
El Cerrito	543,882	14.5	91	23.97	87
El Monte	510,782	4.1	29	6.44	19
Exeter	60,857	9.2	86	11.01	48
Fairfield	698,531	6.8	74	12.12	59
Fontana	228,210	3.4	19	6.60	22
Fountain Valley	470,213	6.4	68	8.56	34
Fremont	1,794,184	8.2	82	13.64	69
Fresno	3,914,645	7.6	80	18.17	81
Fullerton	1,247,631	6.5	69	12.24	61
Garden Grove	820,245	5.5	56	6.54	21
Glendale	1,722065	4.6	38	12.52	63
Grand Terrace	0	0.0	3	0.00	3
Hayward	1,760,568	7.2	78	18.66	82
Hercules	58,141	1.2	8	9.84	40
Huntington Beach	2,270,516	6.3	67	13.30	67
Indian Wells	4,258	0.4	6	3.15	10
Inglewood	1,075,149	4.9	43	11.42	52
Irvine	284,385	2.2	11	4.14	12
Lakewood	142,893	1.8	10	1.91	8
La Mesa	426,783	5.7	61	8.54	31
Lancaster	0	0.0	3	0.00	3
La Palma	156,955	9.9	88	10.04	41
Live Oak	25,023	5.8	62	8.03	28
Long Beach	9,020,057	8.9	84	25.27	88

Table VI-5 - continued

Name	1980-81 Tax Base to be Shifted	Tax Shift as a Percentage of 1979-80 Discretionary Revenue	Rank	Per Capita Tax Shift	Rank
Los Angeles	83,982,224	9.6	87	28.44	90
Madera	132,995	3.6	21	6.13	17
Marysville	149,050	4.9	44	15.07	72
Modesto	855,807	3.7	22	8.11	30
Norwalk	0	0.0	3	0.00	3
Oakland	9,367,457	9.1	85	27.65	89
Oceanside	1,072,774	7.1	76	14.37	70
Ontario	1,023,888	6.9	75	11.65	55
Orange	952,108	4.6	37	10.41	45
Pacific Grove	184,723	5.4	55	11.76	57
Palm Springs	1,080,671	6.3	66	34.29	91
Palo Alto	983,234	4.3	31	17.91	80
Pasadena	2,509,194	6.6	70	21.28	83
Pico Rivera	0	0.0	3	0.00	3
Pinole	174,669	11.0	89	12.22	60
Pismo Beach	46,955	3.2	17	8.88	36
Pomona	1,545,830	7.6	79	16.68	78
Portola Valley	19,929	3.9	25	5.05	13
Rancho Palos Verdes	86,682	3.0	15	2.44	9
Redding	485,265	3.9	24	11.55	53
Redwood City	928,308	7.2	77	16.42	77
Rialto	295,025	5.1	46	7.87	26
Richmond	3,829,621	14.9	92	51.60	93
Riverside	1,100,383	2.9	14	6.47	20
Sacramento	6,033,018	8.0	81	21.97	85
Salinas	751,285	4.5	34	9.33	37
San Anselmo	261,318	12.2	90	21.97	86
San Buenaventura	791,663	4.8	41	9.52	39
San Diego	9,048,124	5.2	49	10.34	43
San Gabriel	242,040	5.1	48	8.03	29
San Jose	5,558639	4.0	26	8.84	35
San leandro	1,006,112	5.6	60	15.86	74
San Marino	538,227	20.1	93	40.47	92
San Pablo	117,468	4.6	36	5.95	15
Santa Barbara	640,875	3.4	18	8.56	33
Santa Clara	697,661	2.4	13	7.99	27
Santa Monica	1,351,786	4.7	39	15.33	73
Santa Rosa	928,342	5.3	53	11.32	51
Seaside	201,176	4.9	42	6.68	23

Table VI-5 - continued

Name	1980-81 Tax Base to be Shifted	Tax Shift as a Percentage of 1979-80 Discretionary Revenue	Rank	Per Capita Tax Shift	Rank
Soledad	35,130	5.5	57	5.95	16
South Gate	48,603	0.6	7	0.72	6
Stanton	149,824	4.4	33	6.34	18
Stockton	2,018,507	5.3	50	13.49	68
Thousand Oaks	0	0.0	3	0.00	3
Torrance	2,146,474	5.6	59	16.34	76
Vallejo	799,972	4.7	40	10.36	44
Walnut Creek	584,646	5.3	51	11.08	49
Wasco	16,011	1.8	9	1.67	7
Watsonville	282,148	5.1	47	11.60	54
West Covina	848,890	5.4	54	10.94	47
Westminster	265,247	2.4	12	3.93	11
Whittier	511,555	4.1	28	7.48	25
Willows	62,530	6.1	64	13.11	66
Yreka	73,665	4.0	27	12.44	62
Yuba City	306,836	5.6	58	16.34	75

[a]AB 251 as amended March 17, 1981.

NOTE: In the rankings 1=lowest value recorded.

SOURCE: AOR calculations based on survey data.

Measures of "Need" Among California Counties

Problems in Assessing Need

The assessment of fiscal "need among California's 58 counties is even more difficult than the assessment of need among California 422 cities. In addition to the previously discussed economic, fiscal, and demographic measures, a full consideration of "need" among counties would involve detailed consideration of the medical, social service, income maintenance, and criminal justice workloads of individual counties. Such a detailed study was beyond the scope of this review of city and county finances.

One cannot emphasize too much the importance of a detailed analysis of the specific populations that counties are required to serve under federal and state law. One example must suffice to demonstrate this problem. Counties are mandated by state law (Section 17000, et seq., of the Welfare and Institutions Code) to provide medical care for the indigent. A county's fiscal "need" (as measured from the demand side of the equation) is therefore in part a function of the size of its medically needy population and the nature of their ailments. To say that it is difficult to measure this need is to understate the problem. In addition to the problems inherent in measuring demand for medical services, one must add consideration of the needs of illegal aliens who may not be included in most measures of population and yet may constitute a significant portion of the demand for medical services. Similarly, the problem of mobility among counties may complicate efforts to assess the population demanding service in an individual county.

Similar difficulties can be found in measuring demand for criminal justice, social service and income maintenance programs where the county

cannot refuse to aid needy persons, or jail and try alleged criminals. Some system of measuring these service demands consistently across counties is essential to the development of a comprehensive and accurate measure of county "need."

Possible Indicators of Need

Given the problems discussed above, it is difficult to reach any firm conclusions about the relative "need" of individual counties. Notwithstanding these difficulties, we did attempt to rank counties using criteria similar to those we applied to cities. The results of those comparisons are discussed below.

Table VI-6, County Per Capita Sales and Property Tax Revenues 1977-78 and 1979-80, compares counties in our survey sample in terms of per capita sales and property tax revenues in 1977-78 and 1979-80. The table shows a wide disparity between counties, both before and after Proposition 13. In 1977-78 and 1979-80, a major growing urban county was the county with the lowest per capita sales and property tax revenues (Riverside in 1977-78 and Orange in 1979-80). Since total sales tax revenue is less than one-seventh the size of total property tax revenue this difference is a clear reflection of relatively low pre-Proposition 13 property tax rates in these counties. The large figure shown for San Francisco ($312 in 1979-80) is a reflection of its dual role as city and county and its high pre-Proposition 13 property tax. Kern County's figure ($162 in 1979-80) reflects the impact of large oil deposits on its assessed value figure. The large drop in per capita revenues for all counties reflects the effects of Proposition 13 and the state assumption of various health and welfare costs that were formerly supported by county property taxes. Finally, the wide variety

Table VI-6

County Per Capita Sales and Property Tax Revenues
1977-78 and 1979-80

County	Per Capita Sales and Property Taxes 1977-78	Rank (1=Lowest)	1979-80	Rank (1=Lowest)	Change (%)
Alameda	$156	12	78	6	-50.0
Contra Costa	148	10	85	8	-42.6
Fresno	150	11	91	9	-39.3
Kern	232	17	162	17	-30.2
Los Angeles	180	16	106	12	-41.1
Mendocino	168	14	122	16	-27.4
Monterey	132	7	75	5	-43.2
Orange	82	2	56	1	-31.7
Placer	124	6	108	13	-13.0
Riverside	75	1	73	4	-2.7
Sacramento	146	9	98	10	-32.9
San Bernardino	108	3	71	3	-34.3
San Francisco	459	18	312	18	-32.0
San Joaquin	173	15	113	14	-34.7
San Mateo	135	8	84	7	-37.8
Santa Clara	112	4	68	2	-39.3
Siskiyou	123	5	100	11	-18.7
Yolo	159	13	114	15	-28.3

SOURCE: AOR County Finance Survey

of per capita figures in 1977-78 (pre-Proposition 13) can be taken as a measure of local choices about the amount and quality of services to be provided. Since the property tax was the main source of revenue for all counties it is a good indicator of the level of government services locally elected officials deemed necessary prior to Proposition 13.

Table VI-7, County Per Capita Discretionary Revenues 1977-78 and 1979-80, ranks counties in terms of per capita discretionary revenues in 1977-78 and 1979-80 and changes in those revenues. Discretionary revenues are composed of those revenues received by a county that are not restricted to a special purpose and include sales taxes, property taxes, local taxes, unrestricted state subventions, federal revenue sharing funds, fines, permits, interest earnings, and other miscellaneous revenues. The principle exclusions are federal and state categorical grants and user fees and charges. In order to facilitate comparison, the 1977-78 figure has been adjusted by subtracting the amount of the county's statutory obligation to fund the SSI/SSP program and the MediCal program. The state assumed these costs in the post-Proposition 13 bail-out legislation.

Table VI-7 shows that several counties with high levels of per capita discretionary revenues have experienced slow rates of growth (Los Angeles, Sacramento). Other counties, such as Fresno and Kern, show relatively high levels and growth rates. Although no clear pattern appears to hold, most counties have experienced an obsolute drop in per capita discretionary revenues, even after we adjusted for the state assumption of MediCal and SSI/SSP costs. Depending upon whether one measures county "need" based on the level of discretionary revenue or

Tabel VI-7

County Per Capita Discretionary Revenues
1977-78 and 1979-80

County	Per Capita Discretionary Revenues *1977-78	Rank (1=Lowest)	1979-80	Rank (1=Lowest)	Growth Rate (%)	Rank (1=Lowest)
Alameda	$171	8	$132	4	-19.4	1
Contra Costa	170	7	148	7	-13.1	4
Fresno	212	15	227	15	+7.1	16
Kern	286	17	295	17	+3.2	15
Los Angeles	191	12	159	9	-16.6	2
Mendocino	228	16	226	14	-0.9	11
Monterey	159	6	148	8	-6.4	9
Orange	106	1	105	1	-0.6	12
Placer	203	14	189	12	-6.8	8
Riverside	113	2	129	3	+14.0	17
Sacramento	186	9	165	10	-10.8	5
San Bernardino	144	4	142	6	-1.2	10
San Francisco	645	18	645	18	+0.1	13
San Joaquin	190	11	171	11	-10.2	6
San Mateo	157	5	141	5	-10.1	7
Santa Clara	142	3	121	2	-14.9	3
Siskiyou	199	13	229	16	+15.2	18
Yolo	190	10	191	13	+0.2	14

* Adjusted to reflect state assumption of county SSI/SSP and MediCal costs.

SOURCE: AOR County Finance Survey.

based on its growth rate one can reach different conclusions about which counties should be aided. In our sample there does seem to be some slight correlation between relatively low levels of per capita discretionary revenues and relatively slower growth rates (R = .49 at the 95 percent level based on a comparison of the ranks of 1979-80 discretionary revenue per capita and the rank of a county's growth rate as displayed in Table VI-7). Los Angeles County, however, ranked ninth in 1979-80 per capita discretionary revenues but had the next to lowest growth rate of any county (-16.59 percent). Given Los Angeles's size, a choice between measuring need based on level of revenue or growth of revenues could make a major difference in terms of revenues shifted to the county.

Table VI-8, County Population Growth Rates and 1977 Per Capita Personal Income Levels, shows how counties rank in terms of two other measures of fiscal capacity, population growth since 1960 and per capita income. Population growth is often considered a measure of fiscal capacity because it is assumed that distressed or economically declining areas experience slower than average population growth or even experience a decline in population. Per capita personal income is a proxy for the ability of the residents of a local jurisdiction to pay for local government services.

Table VI-8 indicates that some of the counties with the lowest levels of per capita discretionary revenues (Orange, Contra Costa) have experienced rapid population growth and high levels of per capita personal income. While average per capita personal income figures can disguise significant pockets of poverty and do not reflect differences in the cost-of-living between urban and rural settings, they roughly

Table VI-8

County Population Growth Rates and
1977 Per Capita Personal Income Levels

County	Population Growth Since 1960 (%)	Rank (1=Lowest)	Per Capita Income 1977	% of State Average	Rank (1=Lowest)
Alameda	21.2%	3	$6,850	105.5%	13
Contra Costa	59.1	12	7,717	119.0	17
Fresno	38.5	8	5,280	81.4	1
Kern	37.5	7	5,376	82.9	3
Los Angeles	23.3	4	6,612	101.9	12
Mendocino	30.1	5	5,308	81.8	2
Monterey	42.7	10	5,895	90.8	10
Orange	173.6	18	7,128	109.9	14
Placer	105.7	16	5,810	89.5	7
Riverside	115.7	17	5,655	87.1	6
Sacramento	55.2	11	6,320	97.4	11
San Bernardino	74.3	14	5,620	86.6	5
San Francisco	-8.9	1	7,676	118.3	16
San Joaquin	38.9	9	5,820	89.7	9
San Mateo	31.2	6	8,429	129.9	18
Santa Clara	100.9	15	7,237	111.6	15
Siskiyou	20.8	2	5,380	82.9	4
Yolo	72.4	13	5,819	89.7	8
State Average	49.7%	--	$6,487	--	--

Source: Bureau of the Census

represent the vitality of the local economy. However, one might consider the low levels of spending in these two counties after Proposition 13, one cannot argue that these low levels are a function of a weak economic base in these counties, since both counties have been thriving over the last two decades. Low levels of spending are the result of local choices. Conversely, counties with relatively slow population growth relative to the state average (San Francisco, Siskiyou) have high levels of per capita revenues. These counties may well have high levels of "need" for spending but relatively weak economic bases.

Composite Need Index

We have calculated a simple "need" index for counties based on the same criteria we used for cities (see discussion above). The index was used to rank counties based on per capita personal income, per capita sales tax revenue growth, and the relative "maturity" of the county measured by the percentage of its 1980 population it achieved in 1960. In the case of counties we used total sales tax growth for all cities in the county and the county government. This served as a proxy for expansion of business activity throughout the county. Table VI-9, County Rankings on a Sample "Need" Index, presents the results of these calculations. San Francisco ranks at the top of this need index, primarily due to its sharp population decline. It is interesting to note that two of California's five largest counties (Alameda and Los Angeles) also rank near the top of our need index. Fast growing Orange, Santa Clara, and Riverside counties all rank near the bottom of the index. It should also be noted that both of the small counties in our survey (Mendocino and Siskiyou) ranked very high on our need index.

Table VI-9

County Rankings On a Sample "Need" Index

(Note: Higher scores reflect greater "need.")

County	Score on AOR Index	Rank (1=Lowest)
Alameda	147	17
Contra Costa	59	6
Fresno	98	11
Kern	104	13
Los Angeles	140	16
Mendocino	100	12
Monterey	97	10
Orange	38	1
Placer	54	4
Riverside	55	4
Sacramento	107	14
San Bernardino	76	7
San Francisco	198	18
San Joaquin	94	9
San Mateo	93	8
Santa Clara	54	3
Siskiyou	131	15
Yolo	52	2

The Index was computed as follows:

$$\frac{\text{State average}}{\text{Total city and county per capita sales tax growth 1970-80}} \times \frac{\text{State average}}{\text{1977 county per capita personal income}} \times \frac{\text{County's 1960 Population as a percent of its 1980 popopulation}}{\text{State average}} \times 100$$

As was the case with our city need index, this index is not without serious problems. First, the index includes per capita sales tax revenue growth as a factor. Since counties receive sales tax revenues only from sales made in the unincorporated areas, a county that has adopted a policy of encouraging cities to annex developing areas may rank high on the index even though it is not benefitting from sales tax growth. Another weakness of this index is that it treats rapid population growth as a positive factor increasing fiscal strength and reducing need. In terms of the revenue side of the "need" equation this may be correct. Rapid growth is reflective of a healthy local economy. However, rapid population growth also generates demand for services and for new public capital facilities. Placer County, a booming foothill county, ranks low on our need index because of its rapid growth. As our field interview demonstrated, however, this rapid growth has created a serious shortage of public capital facilities (roads, jails, parks, etc.) which the county may have great difficulty financing.

As a result of these problems, the reader should approach our city and county need indices with great caution. They should serve as illustrations of the difficulty of constructing a simple index that reflects the complexity and diversity of the needs local governments attempt to serve. As was the case with cities, it would be difficult to design a responsive centrally controlled (state) fiscal system to replace the locally directed, decentralized system that existed before Proposition 13.

The construction of a flexible local finance system that preserves the maximum amount of local fiscal autonomy compatible with the property

tax limits of Proposition 13 is the major challenge facing policy makers involved in shaping the state-local finance system. It will be difficult to reconcile these two forces and may prove to be impossible.

Table VI-10, Effects of the Governor's Proposed Shift of Property Taxes From Counties to School Districts, shows how the property tax shift from counties to school districts proposed in the Governor's Budget for 1981-82 (details of the shift are contained in AB 251 (Vasconcellos) of 1981 as amended March 17, 1981) would affect counties in our sample. Since the shift is based on the amount of state "block grant" assistance allocated to counties by AB 8 (Greene) of 1979 (the long-term post-Propostiion 13 fiscal relief measure), the cutbacks fall most heavily on the counties which were hardest hit by Proposition 13 (San Francisco, Los Angeles, Alameda). The losses range from zero in Orange County, where state health and welfare "buy-outs" more than replaced property tax losses, to $69 million in Los Angeles County. Measured on a per capita basis the range from $1.11 in Monterey to $26.60 in San Francisco. Finally, these losses, when measured as a percentage of 1979-80 discretionary revenues, range from just over 1.5 percent in Siskiyou County to 5.8 percent in Los Angeles County. How one judges the "equity" of the proposed shift depends on the criteria used to judge the plan. These criteria could focus on the per capita impact, the impact on discretionary revenues, or the proportionate amount of the total bail-out aid distributed by the state.

Table VI-10

Effects of the Governor's Proposed Shift of Property Taxes From Counties To School Districts

(Based On AB 251 of 1981)[a]

County	1980-81 Property Tax Base Shifted ($ in 1,000)	Tax Shift as a Percentage of 1979-80 Discretionary Revenues	Rank (1=Lowest)	Per Capita Amount Shifted	Rank (1=Lowest)
Alameda	$ 7,217	4.7	17	$ 6.55	16
Contra Costa	2,749	2.8	14	4.14	12
Fresno	683	0.6	2	1.32	4
Kern	673	0.6	3	1.70	5
Los Angeles	69,587	5.8	18	9.26	17
Mendocino	423	2.8	13	6.22	15
Monterey	297	0.8	4	1.12	3
Orange	0	0	1	0	1
Placer	404	1.8	7	3.34	8
Riverside	646	0.8	5	.94	2
Sacramento	2,851	2.2	8	3.62	11
San Bernardino	2,803	2.3	9	3.11	6
San Francisco	17,831	4.1	16	26.60	18
San Joaquin	1,791	3.1	15	5.09	14
San Mateo	1,973	2.4	10	3.34	9
Santa Clara	4,269	2.7	12	3.27	7
Siskiyou	140	1.5	6	3.43	10
Yolo	520	2.4	11	4.57	13
TOTAL	$114,857				

[a]AB 251 as amended March 17, 1981

SOURCE: AOR County Finance Survey